



# BAKER TILLY INTERNATIONAL

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COUNTRY

Doing Business in  
**Russia**



# Preface

This guide has been prepared by Baker Tilly Russaudit Ltd, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Russia.

Baker Tilly International is the world's 8th largest accountancy and business advisory network by combined fee income, and is represented by 145 firms in 110 countries and over 25,000 people worldwide. Its members are high quality, independent accountancy and business advisory firms, all of whom are committed to providing the best possible service to their clients, both in their own marketplace and across the world.

This guide is one of a series of country profiles compiled for use by Baker Tilly International member firms' clients and professional staff. Copies may be obtained from Baker Tilly Russaudit Ltd or any of our international member firms.

Doing Business in Russia has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Russian matters can be obtained Baker Tilly Russaudit Ltd; contact can be found at the end of this guide.


**April 2009**



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# 1 Fact Sheet

## Geography

|                 |  |
|-----------------|--|
| Location        | Northern Asia (the area west of the Urals is considered part of Europe)  |
| Area            | 17,075,400 km <sup>2</sup>   |
| Land boundaries | Ukraine, Belarus, Poland and the Baltic countries (to the west); Finland and Norway (to the north); Georgia, Azerbaijan, Kazakhstan, Mongolia, China and North Korea (to the south)  |
| Coastline       | The Arctic Ocean, the Atlantic Ocean and the Pacific Ocean   |
| Climate         | The country's climate varies considerably, but over its greatest mass is influenced by westerly Atlantic winds. The northern part of the country has an Arctic and sub-Arctic climate; southern areas are subtropical. The rest of the country has a temperate climate. During winter the temperature in Siberia can fall to -70°C (-40°F); in the summer temperatures can reach 50°C (122°F) in the desert region of Central Asia |
| Terrain         | Diverse, ranging from tundra in the north to semi-arid in the south, with all variety of forests and grasslands from west to east  |
| Time zone       | GMT +2 – +12; Russia is divided into 11 time zones   |

## People

|               |   |
|---------------|---|
| Population    | 142,006 million   |
| Ethnic groups | Russia's population is diverse and includes over 180 ethnic groups. The majority of the population (79.83%) is Russian. Tatar and Ukrainian are the next largest groups |
| Religion      | Russian Orthodox, Islam   |
| Language      | Russian   |

## Government

|                          |  |
|--------------------------|--|
| Country name             | Russian Federation   |
| Government type          | Federal presidential republic  |
| Capital                  | Moscow   |
| Administrative divisions | Russia comprises 83 federal subjects: 21 republics (states), nine territories, 46 regions, two federal cities, one autonomous region |

and four autonomous *okrugs* (districts). Russia is also divided into seven federal *okrugs*, each headed by a representative appointed by the president

Political situation      The current political situation is stable. President of the Russian Federation is D A Medvedev (elected in 2008). The prime minister is V V Putin. State power in Russia is divided among the executive, legislative and judicial branches

### **Economy**

|                        |                              |
|------------------------|------------------------------|
| GDP – per capita       | US\$12,178                   |
| GDP – real growth rate | 8.1%                         |
| Labour force           | 76 million (September 2008)  |
| Unemployment           | 1.3 million (September 2008) |
| Currency (code)        | Russian ruble (RUB)          |

## 2 Business Entities and Accounting

### 2.1 Types of Company Structure Available to Foreign Investors

Investors may carry on business in the Russian Federation either through legal entities incorporated in accordance with the laws of the Russian Federation or through representative offices.

Common forms of profit making organisation are:

- Open joint-stock company
- Closed joint-stock company
- Limited liability company
- General commercial partnership
- Limited commercial partnership.

Forms of not-for-profit organisation include foundations, associations and non-profit partnerships.

A legal entity is considered incorporated as of the date of its state registration, ie the date it is entered into the Unified State Register of Legal Entities.

#### 2.1.1 Companies

An advantage of establishing a company is that shareholders' liability is generally limited to their equity contribution.

#### **Open joint-stock company (OAO)**

An open joint-stock (public) company is the most appropriate organisational framework for large businesses with many shareholders.

The minimum authorised (nominal) capital is RUB100,000.

A board of directors must be appointed in companies with 50 or more shareholders.

The executive body of the company may include either a single person (a director or general director – the sole executive power), or a group of people (the board of directors, management etc – the collective executive power).

In order to exercise control over the company's financial and business activities, the general shareholders' meeting elects an auditing committee (or an auditor) in accordance with the company bye-laws.



Stricter requirements for reporting apply to open joint-stock companies than for other profit-making organisations. A public company must publish an annual report, balance sheet and profit and loss statement.

### **Closed joint-stock company (ZAO)**

The main requirements for establishing and operating an open joint-stock company also apply to closed joint-stock (private) companies.

Shares in a ZAO are only distributed among its founders or other restricted persons. The number of shareholders is limited to 50. The authorised capital must be at least RUB10,000.

Existing shareholders have priority when shares are offered for sale by other shareholders.

### **Limited liability company (OOO)**

The number of members in an OOO is limited to 50. The minimum authorised capital is RUB10,000.

The company bye-laws may prohibit members from transferring shares to third parties.

Existing members generally have priority when shares are sold by other members.

Shares are offered to members in proportion to their existing shares.

A member is entitled to leave the company at any time without the consent of the other members. When this occurs, the value of assets proportionate to their share in the authorised capital of the company must be paid out to them.

#### 2.1.2 Partnerships

The level of liability accepted by members of partnerships is greater than that accepted by members of companies. Accordingly, partnerships are uncommon.

There are two main forms of partnerships in Russia:

#### **General partnership**

Partners of a general partnership, in accordance with the agreement they entered into, carry on business on behalf of the partnership.

The operations of any general partnership are usually managed by mutual consent of all partners.

The members are jointly liable for the obligations of the partnership and such liability is extended to their private property.

When a partner withdraws from the partnership, the value of the partnership's assets proportionate to the partner's share in the partnership's share capital must be paid to them.

### **Limited partnership (partnership in commendam)**

A limited partnership includes:

- Full partners – liable for the partnership's obligations through their property
- Contributing partners (special partners) – liable for losses up to the amount of their contributions; they do not participate in managing the partnership's business.

#### 2.1.3 Representative Offices

Representative offices (branches) are not independent legal entities. Therefore, most of the requirements for establishing legal entities do not have to be met when establishing a representative office.

The representative office of any foreign organisation must register with the State Registration Chamber under the Ministry of Justice or with the Russian Chamber of Commerce and Trade.

## **2.2 Accounting, Audit and Filing Requirements**

### 2.2.1 Statutory accounting regulations

The majority of Russian businesses (except for some very small businesses) and branches (representative offices) of foreign organisations must maintain proper accounting records and prepare financial statements which must be retained for at least five years.

Accounting is regulated by the Federal Law on Accounting, the Civil Law, the Federal Law on Joint-stock Companies and local/municipal accounting regulations, Russian Accounting Standards (PBU) and the Chart of Accounts. A company's accounting records and its financial statements must be prepared in accordance with these regulations. Independent professional organisations do not regulate accounting in Russia.

### 2.2.2 Accounting principles and assumptions

The Russian Government has been implementing a programme to harmonise its national accounting standards (RAS) with International Financial Reporting Standards (IFRS) since 1998. 20 new accounting standards have been issued to align accounting practices with IFRS. Despite these efforts, differences between national accounting standards and IFRS remain.

The interpretation and treatment of principles under statutory requirements are often similar to IFRS in form, but different in substance. Certain statutory requirements are still ignored by companies.

There is no deadline for transition to IFRS.

### 2.2.3 Statutory financial statements

All aspects of the preparation of statutory financial statements are regulated by the Russian Accounting Standard No. 4 – Financial Statements of a Company. Statutory financial statements must be prepared in Russian, denominated in Russian rubles and submitted annually to the tax and statistics authorities and shareholders.

A standard financial statement includes:

- Balance sheet
- Profit and loss statement
- Statement of changes in equity
- Cash flow statement prepared using the direct method
- Notes disclosing major financial details
- Accounting policies
- Explanatory notes.

For small businesses a simplified package of financial statements and preparation procedures exists.

The accounting year coincides with the calendar year.

It is important to note that the structure and content of the statements are inconsistent with IFRS. The cash flow statement can only be prepared using the direct method; there are no detailed guidelines for its preparation.

#### 2.2.4 Requirements for independent audits

Any organisation that meets any of the following criteria must have their accounting records and financial statements audited annually by an authorised auditor:

- The organisation is an OAO
- Annual revenue exceeds RUB50m; the amount of assets in the balance sheet at the end of the accounting year exceeds RUB20m
- The organisation is a credit institution, insurance company, is involved in commodity or stock exchange, or is an investment fund
- The organisation is an issuer of equity securities, a non-state pension fund, or an agricultural co-operative.

## 3 Finance and Investment

### 3.1 Exchange Control

Federal Law No. 173-FZ on currency regulation and currency control sets out the following basic principles:

- Any currency transaction which is not specifically prohibited or regulated is permitted without restriction
- In cases of doubt, Federal Law No. 173-FZ is to be interpreted in favour of market participants, whether residents or non-residents.

### 3.2 Banking and Sources of Finance

The Russian banking sector has developed rapidly in recent years. The current banking and financial system includes the Central Bank of the Russia Federation (Bank of Russia), a network of commercial banks and non-banking specialised financial institutions (investment companies, investment funds, insurance funds, pension funds, etc).

#### 3.2.1 The Central Bank of Russia

Founded in 1990, the Bank of Russia carries out its functions independently of the federal, regional and local government structures. Its objectives are to protect the ruble and ensure its stability, develop and strengthen the banking system and guarantee the efficient and uninterrupted function of the payment system.

#### 3.2.2 Commercial banks

Commercial banks operate under the authorisation and supervision of the Bank of Russia. There are over 1,200 banks which provide a wide range of financial services both to Russian and foreign clients. State-owned Sberbank is the country's largest bank.

#### 3.2.3 Federal Financial Markets Service (FFMS)

The FFMS is the federal executive body which controls and supervises activity in the financial markets, including the activity of exchanges, and issues relevant regulations. It also regulates the investment of pension savings.

The key objectives of the FFMS are to maintain stability in the financial markets, make the markets more efficient and attractive to investors, increase market transparency and reduce investment risks.

### 3.2.4 Pensions and pension funds

Russia has changed its approach to pension provision in recent years from a wholly distributive regime to one that is partly accumulative. Instead of current deductions being used to pay obligations to existing pensioners, a portion of the deductions is applied to the personal account of the contributor and invested in approved financial instruments.

The amount in a person's account will depend on their salary as well as on the results of investments.

By the time a person reaches retirement age they will have a certain sum accumulated on their pension account. Russia's economy will receive investment resources, while employees and employers will be interested in having salaries paid legally.

The FFMS regulates management companies and non-government pension funds that place funds from the accumulative part on the securities market. There is currently a strict system of control and supervision over those who invest pension accruals.

## 3.3 Foreign Exchange Control Regulations

The procedure for residents (individuals and legal entities) to open foreign currency accounts with foreign banks is governed by Federal Law No. 173-FZ and certain acts of the Bank of Russia.

Federal Law No. 173-FZ maintains the main principle of currency legislation, ie repatriation of proceeds by residents (return of transferred advance payment) in respect of foreign trade contracts. This provision is mandatory and cannot be modified by subordinate legislation. Federal Law No. 173-FZ provides a complete list of exceptions to this requirement.

### **Currency operations between residents**

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

### **Currency operations between non-residents**

Non-residents have the right to open and operate both foreign currency and ruble accounts with Russian banks. They are permitted to make payments between

themselves in foreign currency without restriction, but ruble payments may take place only through bank accounts opened with authorised Russian banks.

### **Currency operations between residents and non-residents**

As a general rule, there are no restrictions on currency operations between residents and non-residents unless specified by law and by the currency control bodies.

For the purpose of Russian foreign exchange regulations, foreign companies and their branches and representative offices of foreign companies in Russia are treated as non-residents. However, the purchase and sale of foreign currency and foreign currency cheques within the Russian territory can only be performed through an authorised Russian bank.

In the case of major foreign exchange transactions between residents and non-residents, a “transaction passport” must be submitted. This document details the principal provisions of the agreement concluded between the resident and the non-resident and must be submitted to the bank that will render services related to the transaction.

# 4 Employment Regulation and Social Security Contributions

## 4.1 Entry Visa and Work Permit Requirements

All Russian citizens aged 14 years and older have the right to work. However, there are restrictions on the number of working hours per day, the nature of work, etc for citizens under the age of 18.

Russian citizens do not need a work permit, except in cases where the work requires special skills. There are certain public roles that are reserved for Russian citizens.

Citizens of foreign countries wishing to work in Russia must have both a work permit and a work visa. Work permits for foreign employees are issued through the employer by the Federal Migration Service. Some categories of foreigners (eg those holding a residence permit or personnel of consulates or diplomatic missions) have the right to be employed without any such permit. Visitors and persons holding temporary residence permits may be employed in accordance with the relevant legislation of the subject (territory) of the Russian Federation.

## 4.2 Engagement and Dismissal

Labour relations are heavily formalised and regulated at the legislative level. Existing legislation requires that any employment contract must include the following details:

- Place of employment (including the company department)
- Start date of employment and term, if applicable
- Job function(s)
- Remuneration conditions
- Work time and vacations
- Remuneration and benefits for working under arduous, harmful and/or dangerous conditions
- Terms related to work characteristics
- Terms related to mandatory employee social insurance.

An employment agreement may be entered into for an indefinite term or for a fixed term that may not exceed five years. The employment contract may provide for a probation term of up to three months, a duty to keep state, official and commercial information secret, as well as other conditions.



An employment contract may be terminated at the employer's initiative only in cases expressly specified in the labour law. Some types of employees can only be dismissed under special circumstances (eg pregnant women can only be dismissed in the case of a company's liquidation). In most cases, an employee may terminate the employment contract without restriction. The period of termination notice is two weeks.

In the event of substantial changes to an employee's employment conditions, ie changes to the working hours, place of work, compensation, etc, the employee may refuse to continue to carry out their work.

Where there are substantial changes to the employee's working conditions, the employee should be given two months notice. If the employee refuses to work under these new conditions, the employer must offer them another job appropriate to their health – this job does not have to correspond to the employee's qualifications and the salary may be lower than the employee's original salary. In the event that there is no vacancy or the employee refuses to accept the new job, the employment agreement can be terminated and the employee should receive an indemnification equivalent to at least two working weeks.

### **4.3 Working Hours**

The maximum duration of a working week is 40 hours. The working week may include five working days and two rest days, six working days and one rest day, or may be organised according to flexible planning rules.

### **4.4 Paid Leave**

Employees are granted 28 calendar days of paid leave per year.

During the first year of work, an employee may benefit from paid leave only after having worked continuously for six months.

The Labour Code includes the dates of public holidays and specifies the procedures for working on a public holiday and for when a public holiday coincides with a day of paid leave.

### **4.5 Overtime**

The Labour Code provides a list of conditions for working overtime; however, employees may work overtime in cases not stipulated in this list if they agree to do so in writing and after having taken into account the opinion of the trade unions.

Certain categories of employees may not work overtime under any circumstances, including pregnant women and employees under 18 years old.

#### **4.6 Trade Unions and Other Employee Representatives**

Trade unions have extensive powers in respect of labour relations – from participation in collective negotiations and investigation of job-related accidents, to expression of an opinion when deciding whether or not an employee can be dismissed.

Besides trade unions, other employee representatives may be involved in labour relations. However, their authority is restricted significantly compared to that of trade unions.

#### **4.7 Social Security System**

The Russian social security system is in the process of formation – the pension system is being revised and changes are being made to the procedures for collecting premiums for mandatory medical and pension insurance, insurance against job-related accidents, etc. As a result, practically all social security contributions are unified within a single tax – the consolidated social tax (UST) (see Appendix 1).

Contributions for mandatory pension insurance and mandatory insurance against job-related accidents and occupational deaths must be paid independently. The maximum amount of social security contribution may reach 35% of an employee's annual income, and is the liability of the employer rather than the employee.

# 5 Taxation

## 5.1 Taxation of Companies

From 1 January 2009 corporate income tax for all taxpayers does not exceed 20% – 2% is payable to the federal budget and up to 18% (but not less than 13.5%) to the regional budget. The corporate income tax system distinguishes between resident legal entities paying tax on their worldwide income and foreign legal entities paying tax on income derived through a permanent establishment (at the rate of 20%). Foreign companies are also subject to withholding tax on income from Russian sources not related to a permanent establishment at rates varying from 10% – 20% depending on the type of income and the mechanism of calculation.

### 5.1.1 Corporate income tax

Generally, Russian legal entities are taxed on their worldwide profits. The tax base is calculated as all income of the company (including sources outside Russia), less the incurred deductible expenses. There is a list of expenses not recognised for tax purposes; all other expenses are recognised as deductible provided they are economically feasible, supported with relevant documentation and aimed at deriving profits.

With some exceptions, tax is generally calculated at the rate of 20% (see Appendix 2).

Corporate income tax is payable on a year-to-date basis. Companies may choose between paying monthly on the basis of actual profits or quarterly with monthly advance payments calculated on the basis of the profits received in the previous quarter. The final payment for the year is due by 28 March of the following year. The deadline for filing quarterly and annual returns is the same as the payment due dates.

As a rule, taxpayers pay the tax on their own account. However, in some cases (eg where income is paid in the form of dividends) tax is withheld at the payment source.

Where a double tax treaty exists between Russia and a foreign country, tax is paid subject to the provisions of such treaty.

### 5.1.2 Value added tax (VAT)

Sales of goods, works and services within Russia and imports of goods into Russia are subject to VAT. VAT is payable at the standard rate of 18% on most goods, including imported goods and services. A 10% reduced rate is applied to a limited range of basic food items, baby goods, medicine and some mass media products. VAT

is accounted for by vendors of goods/services and importers of goods. Export sales are subject to 0% VAT.

Some transactions and taxpayers (eg culture and art institutions) are VAT exempt. Transactions that are exempt include: insurance and banking operations (with some exceptions); leasing out premises located in the territory of Russia to foreign individuals and entities accredited in Russia (on the condition of reciprocity with the respective foreign country); circulation of securities; sale of shares in the nominal (share) capital, shareholdings in unit investment funds or securities; certain medical equipment/services; and the import of certain technological equipment, related components and spare parts as determined by the Government.

For cross-border services special rules apply which determine whether the services are provided within or outside Russia and, consequently, whether they are subject to Russian VAT.

VAT on expenses incurred in connection with the performance of operations subject to VAT, as well as VAT on purchased or imported fixed and intangible assets, is credited against VAT due on sales provided the goods/services are actually received. Russian tax legislation also provides for the refund of input VAT for taxpayers that pay VAT at 0%. However, a special procedure applies and significant difficulties may be encountered.

The VAT declaration should be submitted and the VAT paid no later than the 20th day of the month following the tax period.

### 5.1.3 Payroll taxes

Companies pay the following taxes and contributions on employee's remuneration:

- Unified social tax – generally levied on total income payable to employees and contractors at regressive rates varying from 26% – 2% depending on the amounts of remuneration paid to or on behalf of the individuals concerned
- Obligatory pension insurance contribution – accrued on total income payable to employees and contractors at regressive rates depending on the cumulative remuneration. The amount of contributions reduces the unified social tax payable to the federal budget
- Insurance contributions for mandatory social insurance against work-related accidents – rates vary from 0.2% – 8.5% depending on the employer's activity.

The taxation scale is shown in Appendix 1.

#### 5.1.4 Corporate property tax

This tax is imposed on the average annual value of movable and immovable property accounted for on the balance sheet as fixed assets. The tax rate is established by the regions but should not exceed 2.2%.

#### 5.1.5 Other taxes

##### **Mineral extraction tax**

This tax is paid by the users of Russian subsoil for performing mining operations and is calculated on the value of extracted mineral deposits, including coal, peat, oil, natural gas, natural diamonds, other precious stones and raw materials of radioactive metals.

Rates vary from 0% – 17.5%. In some cases the rates are expressed as an absolute amount per unit extracted.

Mineral extraction tax is the basic tax (rather than income tax) for users of Russian subsoil.

##### **Excise tax**

Companies and individuals performing transactions involving goods that are subject to excise tax (see Appendix 3 for a full list of goods) are liable for excise tax in connection with the transfer of goods across the customs border of Russia.

Taxpayers can deduct statutory tax credits from the tax to be paid.

##### **Transportation tax**

Persons in whose name transport facilities are registered are liable for transportation tax, which is paid annually. Rates depend on the capacity of the transport facilities. The law has determined specific rates; however these may be changed at the discretion of the subjects of the Russian Federation (but not by more than a factor of five).

##### **State duty**

This duty is paid to the State for the performance of particular activities, eg for filing claims, the performance of notarial actions, for annual confirmation of registration of a vessel in the Russian International Register of Vessels. The amount of duty payable depends on the characteristics of the legal act to be performed by a state agency.

### **Unified tax for the simplified taxation system**

Some companies and individuals meeting certain criteria can apply the simplified taxation system. This provides for the substitution of the corporate profit tax, the corporate (personal) property tax, the unified social tax and VAT (except for VAT payable when goods are imported into the customs territory of Russia) for the single tax.

The tax is paid monthly at the rate of 15% when the taxpayer elects to pay the tax on income less expenses (the list of expenses that can be deducted is strictly limited), or 6% when the taxpayer elects to pay the tax on income.

### **Unified tax on imputed income**

Companies and individuals that carry out certain activities (eg personal services, motor transport services) are liable for this tax. It substitutes for a number of taxes as determined by the simplified taxation system; however the transfer is obligatory. Where the taxpayer simultaneously carries on other activities they should pay taxes on such activities in accordance with the generally established procedure.

The tax rate depends on the activities performed by the taxpayer, eg for personal services, tax is levied at 15% based on the respective co-efficients<sup>1</sup> and statutory money equivalent of the number of the taxpayer's employees providing such services (equal to RUB7,500 per employee). The tax is paid quarterly.

This tax is not currently in force in the whole territory of the Russian Federation; the territory of any region may choose to introduce it. In Moscow, for example, it is only applied to activities related to the distribution of outdoor advertising.

## **5.2 Taxation of Foreign Companies**

Foreign companies doing business in Russia are subject to the same taxes as Russian companies.

If a foreign company establishes a branch or representative office in Russia it must be registered with the tax authorities. Registration with the tax authorities is also required in other cases (for example, when opening a Russian bank account).

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<sup>1</sup>Special co-efficients, necessary for the calculation of the unified tax on imputed income, are approved annually by the Order of the Ministry of Economic Development and Trade and reflect changes in retail prices on goods (works, services).

### 5.2.1 Corporate income tax

Foreign companies pay corporate income tax on their profits attributable to a permanent establishment. A permanent establishment under Russian law is similar to that specified in the OECD model convention and broadly defined as “a branch, division, bureau, agency or any other place through which a foreign legal entity regularly carries out its business activities in Russia”. Definitions can vary in Russia’s double taxation treaties.

If a foreign company has a permanent establishment for tax purposes, profits of the establishment are calculated on substantially the same basis as those of Russian companies.

If a foreign legal entity conducts free-of-charge preparatory and/or auxiliary services for third parties, a permanent establishment is considered to have been formed and the tax base is calculated at 20% of its expenses relating to such activities.

If the activity of the foreign company does not result in a permanent establishment, only certain aspects of its income are subject to Russian income tax (eg income from the sale of real estate, international transportation, dividends, royalties, interest on loans). In these cases, tax is charged at the source of payment. The tax rate varies depending on the type of income received, eg dividends are taxed at 15%, interest on loans is taxed at 20%.

Rates may be reduced where there is a double taxation treaty between Russia and the foreign country. Withholding tax rates on dividends, royalties and interest under principal double taxation treaties are listed in Appendix 4.

### 5.2.2 VAT

Non-tax-registered suppliers of goods, works and services are subject to Russian VAT collected via a reverse-charge withholding mechanism. The VAT reverse charge is withheld at source by a resident tax-registered agent at the rate of 18/118 or 10/110 (applied to a limited range of goods, see 5.1.2) of the amount of income paid inclusive of Russian VAT. This VAT is normally credited by the agent as input tax, provided certain requirements are met.

### 5.2.3 Social payments

Regulations regarding the taxation of foreign companies are similar to those for Russian companies. Nevertheless, Russian legislation contains no clear regulations regarding social payments by foreign companies with no permanent establishment in Russia.

#### 5.2.4 Corporate property tax

For foreign companies registered for tax in Russia corporate property tax is imposed on the average annual value of movable and immovable property accounted for on the balance sheet as fixed assets.

However, for foreign legal entities not tax registered in Russia which do not create a permanent establishment in Russia (non-taxable in Russia), property tax is calculated on the value of immovable property owned.

The tax rate is established by the subjects of the Russian Federation but should not exceed 2.2%.

#### 5.2.5 Other taxes

Regulations applicable to foreign companies are not significantly different to those for Russian companies.

### **5.3 Taxation of Individuals**

#### 5.3.1 Personal income tax (PIT)

Residents are taxed at the rate of 13% on their worldwide income. Statutory social, property and professional deductions may be granted. For some types of income other tax rates apply (see Appendix 5).

Non-residents are subject to a 30% tax on their Russian source income, except dividends from Russian entities which are taxed at 15%. Russian source income includes income received for duties performed/services rendered within the Russian Federation. Standard social, property and professional tax deductions cannot be applied. Income of certain foreign residents (eg heads and expatriate staff of diplomatic/consular representations of foreign countries and members of their families living together with them, unless they are citizens of the Russian Federation) is not subject to tax, with the exception of income from sources in Russia that are not connected with the diplomatic or consular offices of those individuals. This is, however, on condition of reciprocity with the corresponding foreign country.

Residents are defined as individuals staying within the territory of the Russian Federation for at least 183 days out of any period of 12 consecutive months.

The provisions of the respective double tax treaty signed by Russia with a number of countries may amend the taxation of individuals in Russia.

Tax is usually withheld at the source of payment.



### 5.3.2 Personal property tax

Paid annually, this tax is calculated on the owned dwellings, apartments, villas, garages and other buildings and premises using the rate of 0.1% – 0.2%.

### 5.3.3 Taxes for individual entrepreneurs

Individual entrepreneurs must assess and pay tax on income from business activities on their own account.

Tax on income other than from business activities is usually calculated and withheld at the payment source.

Individual entrepreneurs are liable for VAT and social payments.

# Appendix 1

## Applicable Unified Social Tax Rates

| Annual Income (RUB) | Tax Rate   |   |   |   |
|---------------------|--|---|---|---|
|                     | Persons paying to individuals                      | Residents of special economic areas                 | Individual entrepreneurs                            | Lawyers   |
| Up to 280,000       | 26%  | 14%   | 10%   | 8%  |
| 280,001 to 600,000  | RUB72,800 + 10% of the amount exceeding RUB280,000 | RUB39,200 + 5.6% of the amount exceeding RUB280,000 | RUB28,000 + 3.6% of the amount exceeding RUB280,000 | RUB22,400 + 3.6% of the amount exceeding RUB280,000 |
| 600,001 and more    | RUB104,800 + 2% of the amount exceeding RUB600,000 | RUB57,120 + 2% of the amount exceeding RUB600,000   | RUB39,520 + 2% of the amount exceeding RUB600,000   | RUB33,920 + 2% of the amount exceeding RUB600,000   |

## Appendix 2

### Corporate Income Tax Rates

| Rate | Income Type |
|------|-------------|
|------|-------------|

- |     |   |
|-----|---|
| 0%  | <ul style="list-style-type: none"><li>• Income in the form of interest on government and municipal bonds issued before 20 January 1997, inclusive.</li><li>• Income in the form of interest on the government currency bond loan of 1999 issued in the novation of bonds of the internal government currency loan of series III for the purpose of adjustment of the USSR's internal currency debt and Russia's internal and external currency debt.</li><li>• Payment of dividends by a Russian legal entity to another Russian legal entity, provided the following conditions are met: (i) the recipient owns not less than 50% of the shares of the distribution company for not less than 365 days; and (ii) the recipient invested more than RUB500m in the share capital of the distribution company.</li><li>• Dividends received by a Russian legal entity from a foreign legal entity are subject to 0% tax rate provided that in addition to the conditions applicable to a payment of dividends by a Russian legal entity to another Russian legal entity, the state of residence of that foreign legal entity must not be included in the list of countries and territories (established by the Ministry of Finance of the Russian Federation) that benefit from a preferential tax regime and (or) which do not require the disclosure and provision of information relating to financial transactions.</li></ul> |
| 9%  | <ul style="list-style-type: none"><li>• Dividends received by Russian entities which do not satisfy the conditions for the 0% tax rate.</li></ul>   |
| 10% | <ul style="list-style-type: none"><li>• Income of foreign companies received from employment, maintenance or renting out of ships, aeroplanes, or other mobile transportation facilities or containers in connection with international traffic.</li></ul>  |
| 15% | <ul style="list-style-type: none"><li>• Income in the form of dividends received by foreign companies from Russian entities.</li><li>• Income in the form of interest on government and municipal securities, whose issue and distribution terms and conditions provide for income to be received in the form of interest.</li></ul>  |
| 20% | <ul style="list-style-type: none"><li>• Other income of foreign companies not connected with the activities carried out in Russia through a permanent establishment.</li></ul>  |

## Appendix 3

### The List of Excisable Goods

- Ethyl spirit from any raw material except cognac/brandy spirit.
- Products (solutions, emulsions, suspensions and other liquid products) with an ethyl spirit volume fraction over 9%.
- Alcohol products (including spirits, alcoholic beverages, cognac, brandy wines and foodstuffs with a volume fraction of ethyl alcohol over 1.5%, except for wine stock).
- Beer.
- Tobacco goods.
- Passenger cars and motorcycles with engine power over 112.5 kWt (150 hp).
- Gasoline.
- Diesel fuel.
- Motor oil for diesel and/or carburettor (injector) engines.
- Straight-run gasoline.

## Appendix 4

### Withholding Tax Rates According to the Tax Treaties of the Russian Federation

#### Contracting State

(the list is not complete)

|                          | Dividends          | Interest          | Royalty      |
|--------------------------|--------------------|-------------------|--------------|
| Austria                  | 5% / 15% (a)       | 0%                | 0%           |
| Canada                   | 10% / 15% (b)      | 0% / 10% (c)      | 0% / 10% (d) |
| China                    | 10%                | 10%               | 10%          |
| Cyprus                   | 5% / 10% (e)       | 0%                | 0%           |
| Denmark                  | 10%                | 0%                | 0%           |
| France                   | 5% / 10% / 15% (f) | 0%                | 0%           |
| Germany                  | 5% / 15% (g)       | 0%                | 0%           |
| India                    | 10%                | 0% / 10% (h)      | 10%          |
| Italy                    | 5% / 10% (i)       | 10%               | 0%           |
| Japan                    | 15%                | 10%               | 0% / 10% (j) |
| Luxembourg               | 10% / 15% (k)      | 0%                | 0%           |
| The Netherlands          | 5% / 15% (l)       | 0%                | 0%           |
| South Africa             | 10% / 15% (m)      | 10%               | 0%           |
| Spain                    | 5% / 10% / 15% (n) | 0% / 5% (o)       | 5%           |
| Switzerland              | 5% / 15% (p)       | 0% / 5% / 10% (q) | 0%           |
| United Kingdom           | 10%                | 0%                | 0%           |
| United States of America | 5% / 10% (r)       | 0%                | 0%           |

#### Notes:

- a) 5% for a minimum 10% stake and participation worth at least US\$100,000.
- b) The lower rate applies where the beneficial owner of the dividend is a company that owns/controls at least 10% of the capital of the paying company.
- c) Zero rate applies to the interest paid to the central bank of the other contracting state, or to the interest paid for repayment of debt of the contracting state, or to the interest on loans or credits granted, guaranteed or secured by any organisation established by the government of the contracting state for support of exportations.
- d) Zero rate applies to royalties for the following: copyrights of cultural works (excluding films and television rights); the use of computer software; the use of patents or information concerning industrial, commercial or scientific experience if the payer and the recipient are not related persons.

- e) The lower rate applies if the recipient of dividends has invested in the paying company the amount equivalent to at least US\$100,000.
- f) The 5% rate applies to dividends when three conditions are fulfilled: (1) the effective recipient of the dividends must have invested at least €76,000 in the company that pays these dividends; (2) the recipient must be a company liable for corporate tax; and (3) this latter company must be exempt from corporate tax. The rate 10% when only condition (1) or conditions (2) and (3) are fulfilled. In all other cases the rate is 15%.
- g) The lower rate applies if the recipient of dividends owns at least 10% of the capital of the payer and has invested in the payer's capital at least €80,000 or equivalent in RUB.
- h) Zero rate applies if the recipient of the interest is the government, political subdivision or local authorities of the other contracting state or the central bank of the other contracting state or other authorities or financial institutions which may be defined and agreed by the exchange of notes between the contracting states.
- i) The lower rate applies if the recipient of dividends owns at least 10% of the capital of the payer and has invested in the payer's capital at least US\$100,000 or equivalent in other currency.
- j) Zero rate applies to cultural royalties.
- k) The lower rate applies if the recipient of dividends owns at least 30% of the capital of the payer and has invested in the payer's capital at least ECU75,000 or equivalent in other currency.
- l) The lower rate applies if the recipient of dividends owns at least 25% of the capital of the payer and has invested in the payer's capital at least ECU75,000 or equivalent in other currency.
- m) The lower rate applies if the recipient of dividends owns at least 30% of the capital of the payer and has invested in the payer's capital at least US\$100,000 or equivalent in other currency.
- n) The 5% rate applies if the recipient of dividends has invested in the payer at least ECU100,000 or the equivalent amount in other currency and if the recipient of the dividends is a company that is exempt from tax on dividends in its state of residence. The 10% rate applies if only one of these conditions is met.
- o) Zero rate applies if the recipient of the interest is the other contracting state, its political subdivision or local authority, or if the interest is paid on the long-term credit (seven or more years) granted by the bank or other credit institution which is a resident of the contracting state.
- p) The lower rate applies if the recipient of dividends owns at least 20% of the capital of the payer and has invested in the payer's capital at least CHF200,000 or equivalent in other currency.
- q) Zero rate applies to the interest in the case of the sale on credit of any industrial, commercial or scientific equipment or in case of sale on credit of any goods by one enterprise to the other enterprise. The 5% rate applies to interest on bank loans.
- r) The lower rate applies if the recipient of dividends owns at least 10% of the capital of the payer.

# Appendix 5

## PIT Rates

| Rate | Income Type |
|------|-------------|
|------|-------------|

- |     |  |
|-----|--|
| 9%  | <ul style="list-style-type: none"><li>• Dividends.</li></ul>   |
| 30% | <ul style="list-style-type: none"><li>• Income of individuals who are not tax residents in Russia.</li></ul>   |
| 35% | <ul style="list-style-type: none"><li>• The value of any winnings and prizes received in any contests, games and other events conducted for the purpose of advertising goods, labour, services (the value of any winnings and prizes up to RUB4,000 is exempted from PIT).</li><li>• Interest income from bank deposits for the part exceeding:<ul style="list-style-type: none"><li>• The amount calculated based on the refinancing rate established by the Central Bank of the Russian Federation<sup>2</sup> for the period of interest accrual – for ruble deposits except for pension deposits with a fixed period of six months and more</li><li>• 9% on deposits in foreign currency.</li></ul></li><li>• The benefit from ruble savings of loan (credit) interest in the form of a positive difference between <math>\frac{3}{4}</math> of the refinancing rate established by the Central Bank of the Russian Federation as of the date of the loan receipt and the total interest charged in accordance with the terms and conditions of the loan agreement.</li><li>• The benefit from currency savings of loan (credit) interest in the form of a positive difference between 9% interest per annum and the total interest charged in accordance with the terms and conditions of the loan agreement.</li></ul> |
| 13% | <ul style="list-style-type: none"><li>• Other types of income.</li></ul>   |

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<sup>2</sup>At the time of writing the Central Bank refinancing rate = 13%.

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# Notes



# Notes





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