Doing Business in Russia

Your Roadmap to Successful Investments

Tax and Legal

kpmg.ru
Foreword

Dear Reader,

This brochure has been prepared to provide an economic overview of Russia as well as to introduce the tax and legal issues that are important for those planning to do business in Russia. In particular, there is a brief discussion of the benefits of investing in the special economic zones and current trends on innovation and modernisation in the economy.

Russian tax and civil legislation is constantly developing, meaning that sometimes there is no clear answer to what might be considered a simple question. In such circumstances, court cases and rulings are important sources for interpreting legislation.

Information overview is prepared as of 1 May 2016. This brochure is not intended to provide tax or legal advice for any specific person or situation. Readers are strongly advised to seek professional assistance from advisors with experience of doing business in Russia before undertaking any business ventures themselves.

About KPMG

KPMG is one of the world’s biggest advisory, audit and tax and legal firms. KPMG is a global network of professional firms providing Audit, Tax, and Advisory services. The company employs more than 174,000 outstanding professionals who work together to deliver value in 155 countries worldwide. KPMG has been working for more than 25 years in Russia and has more than 4,000 professionals working at 18 offices spread across seven CIS countries.

In recent years, KPMG in Russia and the CIS has been one of the fastest growing KPMG practices in the world. KPMG has been consistently rated the No. 1 audit firm in Russia from 2009–2015 by Expert RA and was named Transfer Pricing Firm of the year in Russia in 2016 and Tax Firm of the Year in 2012–2013 in Russia by the International Tax Review magazine.
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Introduction to Russia

Country snapshot

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<tr>
<td>Capital:</td>
<td>Moscow</td>
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<tr>
<td>Area:</td>
<td>17 mln sq km</td>
</tr>
<tr>
<td>Population (2014):</td>
<td>&gt; 146 mln (Rosstat)</td>
</tr>
<tr>
<td>Cities with over 1 million citizens:</td>
<td>15</td>
</tr>
<tr>
<td>Number of regions:</td>
<td>83</td>
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<tr>
<td>President:</td>
<td>Vladimir Putin</td>
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<tr>
<td>Prime Minister:</td>
<td>Dmitry Medvedev</td>
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<tr>
<td>Currency:</td>
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Encouraging innovation and modernisation in the economy

Over the past few years, Russia has taken significant strides towards founding economic development on innovation. Both the President and government have voiced their support and are allocating substantial budget funds towards these goals.

Russia is striving to progressively develop in order to compete globally and overcome the failings experienced in the 1990s. At the same time, Russia is seeking to take advantage of international best practice.

The Russian President has already signaled that Russia’s goal is to gradually transition away from an economy based on oil and raw material extraction to an economy focused on technology.

To reach this goal, Russia is seeking to increase the hi-tech sector’s share of GDP, grow the proportion of innovative products in total production output, increase R&D spending, and make Russia’s innovative products highly globally competitive. Many are sceptical about Russia’s chances of success; nevertheless, the goal has been set.

The Russian business community are currently actively discussing Russia’s innovation strategy, which runs until 2020 and is the basis on which state policy can be consistently made. A conservative reading of the innovation strategy finds it covering economic development, supporting and motivating the domestic talent pool, protecting intellectual property, and providing and supporting the necessary infrastructure. The strategy also covers improving the legislative framework, reducing administrative (tax/customs) barriers, providing tax incentives, and creating the prerequisites to support demand for innovative products.

Russia has already adopted and implemented a number of measures to support the development of an innovative economy. A number of state-controlled institutions now exist to invest in “innovative” companies. For example, the Russian Corporation of Nanotechnologies (Rusnano) supports projects in the field of nanotechnology, while the Russian
Venture Corporation allocates funds to support venture capital based projects. Russia additionally provides an extensive list of tax concessions to companies with a high degree of intellectual capital. For example, IT companies have had their social security contributions reduced from 30 percent to 14 percent until 2017, while their intangible assets are now amortised over two years instead of ten. A zero-percent profit tax rate has been introduced on income from the disposal of shares in Russian hi-tech companies (providing certain conditions are met), and legislation is being developed to improve the accounting of R&D expenses for profits tax purposes.

Significant tax and customs concessions are also being granted to residents of special economic zones (set up to promote innovation and technological development). These concessions range from decreases in major taxes (profits tax/social security contributions) through to full tax exemptions (property tax, land tax and transportation tax).

Some of the measures adopted for those participating in the flagship Russian ‘Skolkovo’ project are internationally unique. The purpose of Skolkovo is to create the conditions necessary for successful innovation at every stage of development, including commercialisation of the end-results. Skolkovo provides all of the infrastructure needed to concentrate intellectual capital and generate innovative solutions in the priority industries of nuclear technology, energy efficiency, aerospace technology, IT and pharmaceuticals. Legislation provides VAT, profits tax and property tax exemptions for Skolkovo residents, along with a further reduction in the rate of social security contributions down to 14 percent for a period of up to ten years. Customs duties on imported equipment that meet specific requirements can also be reimbursed, while simplified visa procedures can be adopted to bring in foreign specialists.

It was announced that Skolkovo’s basic infrastructure will soon be completed, though companies that expressed interest in participating in the project before its completion have been able to enjoy all of the project’s benefits (including tax and customs concessions) while being physically located elsewhere. Legislation applied these privileges up until 2014. If the Skolkovo project is successfully combined with other state-supported measures to encourage innovation, Russia is very likely to have the opportunity of taking its place among those countries in the world which have developed, innovation-based economies. The key is to make the most of this opportunity in a competent and professional manner, so that everyone, including Russia’s citizens and foreign partners, believe in the concept of the innovation economy and actively support implementation of ‘innovation-based’ plans by the government.
Russia is the largest country in the world with an area of 17,075,400 square kilometers. Its area is approximately equal to the surface area of Pluto.

The Trans-Siberian Railway is the longest railway in the world. The Great Siberian Way connecting Moscow with Vladivostok has a length of 9,298 kilometers crossing 8 time zones, passing through 87 cities and population centers and 16 rivers, including the Volga.

Siberian Lake Baikal is the deepest lake in the world and the largest source of fresh water on the planet. It contains a total of 23 cubic kilometers of water. All the world’s major rivers – the Volga, Don, Dnieper, Yenisei, Ural, Ob, Ganges, Orinoco, Amazon, Thames, Seine and Oder – are to flow almost a year to fill a basin equal to Baikal by volume.

Russia is the only country surrounded by twelve seas.

Siberia’s area is 9,734,300 square kilometers, which is 9% of the world’s land.

Russia borders with 16 countries, including Norway, Finland, Estonia, Latvia, Lithuania, Poland, Belarus, Ukraine, Georgia, Azerbaijan, Kazakhstan, China, Mongolia, North Korea, Japan and the United States of America.

Three quarters of Russians live in cities. The five largest Russian cities are Moscow, St. Petersburg, Novosibirsk, Yekaterinburg and Nizhny Novgorod.

Russia has the largest reserves of natural gas, peat, wood, salt, drinking water, crabs, sturgeon, tin, zinc, titanium, niobium, nickel, iron ore, diamonds and silver. Russia ranks first in the world for oil and gas production, exports of steel, primary aluminum and nitrogen fertilizers.
Learn Russian
This will not only help you in everyday communication (many street vendors, waiters and shop assistants do not speak English) but also when doing business. Even if you hold meetings in English or use an interpreter, it can still be useful to know how things are being translated and understand what has been missed out.

Personal safety is not a problem
Moscow is as safe as, or safer than (in terms of street violence), many other major Western cities. Though like in other major Western cities, it is still unadvisable for people to walk around the suburbs late at night, and advisable to avoid large crowds of football supporters.

Develop personal relationships
Relationships are quite important in Russian business. You may not always be rewarded in cash (there are laws against bribery in Russia), but it always pays to be a sociable, reliable individual.

Beware of traffic
Expats who hire a local driver for themselves and their children should choose carefully, selecting individuals who are competent and patient. Expats who drive themselves, or who walk, should exercise extreme caution as many drivers – sometimes apparently randomly and at all times of the day – perform illegal and unexpected manoeuvres.

Qualified medical services are available
While there are many qualified doctors in Russia, expats often prefer doctors who speak English or their native language. There are several western medical clinics in Moscow and St. Petersburg that have many foreign, foreign-trained and/or foreign language-speaking doctors.

Good food
There are many quality restaurants in Moscow and St. Petersburg (and elsewhere).

There can be some ethnic intolerance
It should be noted that incidents of racism continue to be reported in Russia. People who physically do not look like native Russians should take special care (avoid being alone) in certain situations, including while using public transport.

If you are coming to stay:
— An exemption from customs duties is available for bringing household goods into Russia within certain limits stated in the agreements of the Customs Union.
— Qualified (and English-speaking) household staff can be found easily through other expats.
— There are English, German, French, Japanese and other foreign language schools catering to expat children in Moscow and St. Petersburg (as well as in some other cities), although the choice of school and curricula is likely to be less diverse than in your home country.

Routine issues:
— As an expat (except those with ‘highly qualified’ visa status), you must register and deregister each time you travel abroad or away from your place of residence in Russia.
— Some bills require that you must physically go to a certain bank and pay cash. Fortunately, cash machines are readily available.
— Registering your car can take 1-2 days of your, or perhaps your driver’s, time. However, your driver can only register your car on your behalf if you have spent time and money on granting the driver power of attorney over your car. The power of attorney must be updated 2-3 times annually.

While the above does not cover all aspects of living in Russia, it is enough to infer that expats can and do live safely, successfully and happily in Russia, and often for long periods of time.
Legal structures for starting a business in Russia

Investors often face the problem of deciding which legal structure they should choose for their business in Russia. Below you can find guidance on establishing the following:

- Companies conducting direct sales
- Distributorship contract businesses
- Representative offices or branches
- Russian subsidiaries

Direct sales

A foreign legal entity (FLE) that sells goods directly from abroad to customers located in the Customs Union (in particular, in Russia) would not be subject to Russian taxes and would not be required to establish a presence in Russia via any corporate structures. The Russian customers are responsible for clearing the imported goods through customs and for paying customs duties and taxes (import VAT, excise), as well as customs processing fees.

Import duty rates are set in the Unified Customs Tariff (UCT) of the Customs Union of Russia, Belarus and Kazakhstan. Generally, these import duty rates vary from 5% to 20% and apply to goods imported from countries that enjoy ‘most favoured nation’ status with Russia. If goods are imported from developing countries with most favoured nation status, then the customs rates can be reduced. Import VAT is payable on the customs value of the imported goods, and increases according to the amount of the import customs duty.

Technological equipment not manufactured in Russia can be exempted from import VAT when imported into Russia. Technological equipment imported into the Customs Union is also likely to be exempted from import customs duties, provided certain requirements are met.

Some goods imported into the Customs Union are subject to non-tariff regulations (e.g. certification, licensing, quotas, etc.). Currently, legislation on non-tariff regulations is being developed in both the Customs Union and Russia.

Customs clearance fees depend on the cost of the services rendered by the customs authorities, but cannot exceed RUB30,000 (USD450).

A ‘disposal charge’ is also payable on imported vehicles. The rates of this charge can vary depending on the engine power, vehicle weight and seating capacity.

Since 2012, Belarus, Kazakhstan, and Russia have formed a single economic zone. These countries’ economies are now more tightly integrated than they were under the Customs Union, and freedom of movement for goods, services, capital and labour is ensured, along with guaranteed equal treatment for legal entities.

In 2012, Russia joined the World Trade Organisation (WTO) and became a full member. As part of joining the WTO, Russia now has certain commitments.
related to various sectors of the economy and international trade:
– Import duties on certain products have been lowered, while import duties on computers, components for manufacturing computers and hardware components must be removed within three years;
– Foreign insurance companies will be permitted to open branches in Russia after the transition period;
– Technical regulations will be simplified and developed based on international standards;
– A transition period is provided that will allow investors in the Kaliningrad and Magadan special economic zones to continue to receive tax breaks;
– There will be a transition period lasting until 1 July 2018, during which current industrial assembly regulations will be in force;
– Russia will guarantee a certain level of transparency concerning foreign-trade legislation;
– State subsidies to the agricultural sector will be USD9 billion per year in 2012. Subsequently, state subsidies will decrease yearly.

**Distributorship contract**
A FLE has the right to conclude a distributorship contract with a Russian company, allowing the Russian company to sell the FLE’s goods in Russia. If one of these agreements is signed, then the FLE shall not be taxed in Russia. The Russian distributor shall be responsible for clearing the imported goods through customs and paying customs duties and import VAT. Distributorship contracts are seen as “vertical agreements” from an antitrust law perspective and must comply with antitrust regulations.

**Representative office or branch**
A FLE can choose to establish a presence in Russia through a representative office (RO) or branch. A RO or branch is not a Russian legal entity, but part of the FLE, and therefore the foreign head office bears full responsibility for the obligations and actions of the RO or branch. An RO is authorised to conduct certain “preparatory and auxiliary” activities for the head office. A branch, on the other hand, is able to conduct all activities that the head office can perform, including the signing of sales contracts. However, the Russian customs authorities often try to identify the final Russian buyers of the goods being imported, and can question the right an FLE’s branch has to declare goods for customs clearance. As a result, it can be difficult for a Russian branch to clear goods through customs.
ROs and branches are registered via accreditation from the Federal Tax Service of Russia, which has been
acting as the accreditation agency since 1 January 2015. The Federal Tax Service accredits ROs and the branches of all foreign companies, except for foreign banks and foreign civil aviation companies (for these entities, their ROs are (respectively) accredited by the Central Bank of Russia and the Federal Aviation Service).

Any FLE intending to open an RO or branch in Russia must pay a state fee of RUB120,000 (USD1,850). Once accredited, the RO’s or branch’s term is unlimited. The Federal Tax Service reviews the application for accreditation within 25 business days, and once certified (via the issuing of an accreditation certificate by the Federal Tax Service), the FLE should file an application for tax registration with the local tax authorities, and register its RO or branch with the Federal State Statistics Service and social security funds.

Bank accounts can be opened after the RO or branch has been accredited with the accreditation authority and registered with the tax authorities and the Federal State Statistics Service.

In total it takes approximately 6-9 weeks to set up an RO or branch after all the necessary documents have been submitted to the registration authorities. As the setting up process requires the preparation, approval, and, in many cases, notarisation and apostillation (legalisation) of a large number of documents, the total time required is likely to exceed the period mentioned above.

**Russian subsidiary**

An FLE can choose to establish a presence in Russia via creation of a Russian subsidiary. The most common business structures in Russia are Limited Liability Companies (LLC) and Joint Stock Companies (JSC). In an LLC (Russian abbreviation, OOO), the participation units attributable to shareholders (participants) are not considered as securities under Russian securities legislation. Shares in a JSC, on the other hand, are considered to be securities and are subject to registration with the Bank of Russia’s department governing admittance to financial markets. A JSC can be either public (its shares are publicly traded) or non-public.

Foreign companies often use LLCs to conduct their wholly-owned business in Russia. LLC law has many similar provisions to those in JSC law; however, there are certain distinctions. Generally, only one participant (individual or legal entity) is required to establish an LLC or JSC. However, a solely-owned legal entity cannot establish another LLC or JSC as a subsidiary (i.e. one that would be 100-percent owned by the legal entity).

**Joint Stock Companies**

A JSC is a legal entity that issues shares to generate capital for its activities. A shareholder is not generally liable for the JSC’s obligations and a shareholder’s losses are limited to the value of their shares.

Different classes of shares are permitted. For each share in one particular class, the dividends and voting rights are equal.

Both forms of joint stock company – public and non-public – have the right to issue common or preferred shares and bonds. Both forms are subject to statutory reporting requirements and regulatory restrictions, but the requirements for public disclosure are less rigorous for non-public companies.

Recent changes to Russian corporate law allow shareholder agreements in which participants can, among other things, determine voting obligations at general shareholder meetings, coordinate voting options with other shareholders, determine the price at which shares can be sold, and coordinate other actions related to the JSC’s management, activities, reorganisation and liquidation.

The governing bodies of a JSC are the general shareholders meeting, the board of directors and the executive body (a sole individual or a group).

The executive body manages the JSC’s day-to-day affairs and reports to the board of directors and the general shareholders meeting.

The shareholders meeting, upon a proposal from the board of directors or at its own discretion, can delegate the powers of the executive body to an external commercial company or to an individual manager.

**Limited Liability Company**

The provisions in LLC law are similar to those in JSC law.

An LLC’s participants are not liable for the LLC’s obligations, and any losses the participants may experience are limited to the value of their respective participation units.

LLC charters are likely to restrict the participants in an LLC from transferring their participation units to third parties. If this is the case, a participant has the right to withdraw from an LLC at any time and require that the LLC (or the remaining participants) give the withdrawing participant a portion of the LLC’s net assets commensurate with the proportion of participation units the participant owned.

LLC charters can limit the transfer of participation units or require that the other participants’ or the LLC’s approval is gained first before transferring the units.

**Economic partnership**

This legal form is designed for companies involved in innovative activities (including those providing venture capital). A partnership can
be created by two or more persons (both individuals and legal entities can participate in a partnership). The maximum number of participants in an economic partnership is 50. If the number of participants in an economic partnership exceeds 50, it must be reorganised as a JSC within a year.

The constitutive document of an economic partnership is the Articles of Association. In addition, when establishing an economic partnership, its participants should conclude a special partnership management agreement to govern the rights and obligations of the participants, management of the partnership, its activities, etc. This agreement must be certified and kept by a notary. The share capital of the economic partnership is divided into shares, with contributions to the share capital being made in the form of money, securities, property rights or other rights with a monetary value.

The partners have the right to participate in managing the partnership and also to allocate profits and expenses. The allocation of profits and expenses can be disproportionate to the number of shares owned.

All shareholders, by unanimous decision, elect the governing bodies of the economic partnership. The partnership must maintain a register of participants and indicate the size of their stakes in the partnership capital, as well as list the equity stakes belonging to the partnership itself.

If the economic partnership is technically insolvent and the intellectual property it owns is seized and sold, the participants in the partnership are liable for the partnership’s obligations. These can be met either by one participant acting independently, a group of participants, or all of them together.

The law that gives effect to economic partnerships was passed on 1 July 2012. Since then, only a few economic partnerships have been established (registered) in Russia. Therefore, some of the practical aspects of conducting commercial activities and managing economic partnerships remain unclear.

It is thus advisable to establish a Russian subsidiary in one of the more common legal forms – as either an LLC or JSC.

**Foreign investment law**

Foreign investors are guaranteed certain property rights to their investments in the Russian Federation and to the profits they earn in Russia. Foreign investments are regulated both on a Federal and regional level. According to Federal foreign investment law, the rights of foreign investors to conduct business activities in Russia, and their right to take their profits gained in Russia, must be the same as those of native Russian investors. Certain limitations can be placed on foreign investors, but only if these limitations are required to protect constitutional guarantees such as those protecting the health, rights and lawful interests of citizens, or are related to state defence and security measures.

Foreign investors are generally subject to the same treatment as Russian investors. Licensing, notification and permission requirements that may restrict business activities apply to both Russian and foreign legal entities.

Foreign investors are guaranteed the full and unconditional protection of their rights and interests. A foreign investor is entitled to recover losses caused by an unlawful action or omission by the Federal or regional state authorities in accordance with Russian civil legislation.

The property of a foreign investor or of a company with foreign participants cannot be seized in order to be requisitioned or nationalised, unless stipulated by Russian Federal or international laws.

If requisition occurs, the value of the seized property must be reimbursed to the foreign investor or company with foreign participants. If nationalisation takes place, the value of the nationalised property and incurred losses must be reimbursed.
The law also offers foreign investors protection from unfavourable changes to Russian legislation if the foreign investor holds more than 25% of a Russian company’s share capital. This protection also covers priority investment projects, regardless of the foreign investor’s stake in the project’s share capital. Foreign investors are protected against:

- Newly adopted laws altering customs duties, Federal tax rates, and contributions to state non-budgetary funds (subject to certain restrictions);
- Amendments to current laws resulting in an increase in the investor’s tax burden;
- Any bans and limitations on foreign investment introduced in Russia.

Foreign investors have this protection during the first seven years of an investment project’s pay-back period, starting from the date that the foreign investor began funding the project.

Russian legislation limits the activities of non-Russian investors participating in companies that are of strategic value to Russia (‘strategic companies’) and in companies that carry out some other activities, such as:

- Exploring subsoils and extracting mineral resources on land plots of Federal significance;
- Aerospace activities;
- Certain services provided by natural monopolies or companies with a dominant position on the Russian market;
- Harvesting live aquatic resources;
- Activities controlling hydro-meteorological and geothermal processes and events;
- Certain activities related to the use of nuclear and radiation-emitting materials;
- Certain activities related to the use of encrypting facilities and bugging equipment;
- Military-technology activities.

Thus foreign state companies (non-Russian state companies) are forbidden from engaging in transactions that would allow them to control Russian strategic companies (e.g. from purchasing more than 50 percent of the voting shares (participation units) in a strategic company, or from participating in the regulatory body of a strategic company, etc.).

Non-Russian state companies can engage in some transactions, though only after obtaining approval from the relevant Russian state authorities (i.e. they can purchase more than 5% of the voting shares (participation units) in a strategic company (different thresholds are set for different types of strategic companies)).

Other non-Russian investors (non-Russian private companies; non-Russian individuals; or Russian companies controlled by non-Russian companies or individual(s)) are allowed to carry out transactions that would result in them obtaining control over a strategic company. However, these transactions must be approved by Russia’s state authorities.

Other business issues

Licensing requirements

Certain types of business activities can only be carried out in Russia with a special licence issued by an authorised licensing body. The following activities (among others) are subject to licensing:

- Surveying;
- Pharmaceutical activities and the production of medicines;
- The development, production, repair, sale and trade of weapons and military equipment;
- Overseas and inland waterway passenger and freight transportation;
- The use of highly explosive and hazardous objects for production;
- The production, storage, usage and distribution of explosive materials as part of an industrial assignment;
- Activities related to the exchange of narcotic and psychoactive drugs;
- Educational activities.

Licensing is carried out at both the Federal and regional level. To obtain a licence, an application must be submitted to the licensing authorities.

The licensing requirements depend on the type of licensed activity.
The decision to grant or deny a licence is generally made within the forty-five days after the authorities receive the application and all of its accompanying documents. Regulations on the licensing of some other activities can allow for shorter processing periods.

Generally, licences are issued for indefinite terms.

Licences are issued separately for each type of activity. The transfer of a licence to another legal entity or individual is prohibited, except for in cases specifically provided for by law. A licence becomes invalid when an organisation is liquidated or terminates activities as a result of its reorganisation (unless it is reorganised via legal transformation into another form of company) or when a sole proprietor’s state registration certificate expires.

In accordance with the procedure established by the Administrative Code of the Russian Federation, authorised licensing bodies are entitled to suspend a licence if the licensee violates the licensing requirements and conditions.

Performing a regulated activity without the appropriate licence is likely to lead to the imposition of significant penalties, with other consequences as a result of its reorganisation (unless it is reorganised via legal transformation into another form of company) or when a sole proprietor’s state registration certificate expires.

Some business activities can be conducted only on the basis of a special licence issued by an authorised licensing agency.

**Land ownership**

Pursuant to the Constitution of the Russian Federation, land can be owned privately. Land can also be owned by state or municipal authorities or held under other ownership conditions.

The Russian Land Code regulates the purchase of land via regional-level legislation. In practice, it is still quite difficult to acquire land in Russia from state or municipal authorities. However, according to Federal Law, the owners of buildings have the exclusive right to purchase or rent the land plots underlying and surrounding their buildings.

Typically, land-lease contracts (sometimes with a right to purchase) run for a maximum term of 49 years. Renting or acquiring state property (apart from when executing the aforementioned exclusive right) is likely to require winning a tender/auction. If property is rented or obtained without conducting the obligatory tendering procedures, then the transaction can be invalidated. Certain other restrictions also apply to owning land, e.g. foreign individuals or legal entities do not have the right to own land adjacent to the state border of the Russian Federation.

Special laws regulate transactions involving farmland. According to these laws, foreign individuals, legal entities and stateless persons, as well as Russian legal entities (in which more than 50% of the share capital is owned by foreign individuals, legal entities or stateless persons) can only lease – not own – farm land.

**Land ownership**

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**When acquiring land in Russia, both Federal and local regulations should be considered.**

**Russian regions and Special Economic Zones**

Most Russian regions have adopted laws that allow tax concessions to be given to investors. Currently, the majority of investment tax concessions relate to profits tax and property tax. Investment tax concessions are normally granted only for the investment project payback period, and the amount of the tax saving gained cannot exceed the amount initially invested in the project. Regional authorities can set additional conditions in return for granting concessions (i.e. employing individuals residing in the region, assisting in the development of infrastructure, etc.).

A Special Economic Zone (SEZ) is a clearly defined and limited piece of territory within a particular region of Russia in which business is carried out under special circumstances granting certain tax, customs and other concessions to the residents in that SEZ. The residents in a SEZ can be legal
entities or individual entrepreneurs which conclude an agreement to carry out their activities within the SEZ and are registered with the SEZ’s authorities.

The establishment and operation of SEZs in the Russian Federation is regulated by an agreement between the governments of Russia, Belarus and Kazakhstan1, by Federal Law No. 116-FZ2, and by Federal laws that regulate particular SEZs (if any).

Issues related to the establishment, operation and abolition of free economic zones are referred to in national legislation, i.e. law No. 116-FZ, which provides for four types of SEZ:

- A technological implementation SEZ;
- An industrial and innovation SEZ;
- A tourism and recreation SEZ;
- A ports and logistics SEZ.

The intended lifespan of a SEZ is 49 years.

According to law No. 116-FZ, residents within a SEZ only have the right to engage in the activities specifically prescribed for that type of SEZ. Law No. 116-FZ contains an exhaustive list of the types of activities that can be carried out in each type of SEZ.

Apart from the abovementioned SEZs, there are some combined SEZs in the Kaliningrad region (effective until 1 April 2031) and the Magadan region (effective until 31 December 2025). The residents of these SEZs have been allowed by special laws to conduct various types of activities.

There are currently 28 SEZs operating in the Russian Federation.

To become resident in a SEZ, applicants should submit an application and agree to comply with the requirements of their desired SEZ. The main requirements for candidates to take up residence in a SEZ are the following:

- The candidate should register on the specified territory of the SEZ.
- The business plan and the investment project should provide for a certain volume of investment to be made within a specified period (the actual investment amounts are not necessary on the date an application is submitted).
- The candidate is prohibited from registering branches or representative offices outside of the SEZ, unless the SEZ is in the Kaliningrad or Magadan regions. However, even in these regions, the candidate’s main activities must be performed on the territory of the SEZ.

Current legislation does not contain restrictions regarding the business reputation or credit history of the applicants, or limitations on sources of capital (i.e. companies with both Russian and foreign capital may become SEZ residents).

Residents of all SEZs established in the Russian Federation enjoy customs incentives deriving from customs rules that designate SEZs as ‘free customs zones’. This is regulated by an agreement that requires all activities to be performed within the SEZ and guarantees that the goods imported into the SEZ are exempt from import customs duties and import VAT, providing that certain requirements are met.

SEZ residents also enjoy the following tax concessions:

- Profits tax rate reductions and favourable treatment of certain expenses for profits tax purposes;
- Property tax and land tax exemptions during the concession period.

Law No. 116-FZ contains a ‘grandfather clause’ under which the state guarantees that, should tax legislation be amended so that it has a negative effect on the taxpayers’ positions, the amendments will not be applied to the residents of SEZs who took up residence in accordance with law No. 116-FZ. In general this guarantee applies for the period that an agreement to carry out activities within a SEZ is in force.

Most Russian regions have adopted laws that provide tax concessions for certain investment activities.

1 “On issues related to free (special) economic zones of the customs territory of the Customs Union and the customs procedure for the free customs zone” of 18 June 2010

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Company law

Liabilities

(i) Parent liabilities
In general, a shareholder’s liability is limited to the amount of capital that the shareholder invested in the company, including as-yet unpaid amounts. However, in the event of bankruptcy, a company’s creditors have the right to hold the “parent” liable for the debts of its bankrupt subsidiary if the actions of the parent caused the subsidiary company’s insolvency.

The parent company is also liable for any deals by its subsidiary that were concluded on instructions issued by the parent company or with its approval.

(ii) Controller liabilities
The term “controller” is broadly defined, and its definition includes control not only via ownership, but also via contractual or other relationships that allow a person / entity, including a parent company, to take decisions on behalf of a company, or otherwise influence a company’s activities.

Registration
Registration of a legal entity by the appropriate authorities takes three business days from the moment that documents are submitted.

Registration of a JSC requires up to an additional six weeks to register the issued shares with the Securities Market and Commodity Market Department at the Bank of Russia.

Foreign investors are required to have certain documents legalised, translated or notarised, which can significantly lengthen the registration period.

It is possible to find adverts for ‘Express’ company creation services, but caution is advised when using such services. These ‘express companies’ are often not registered in accordance with official procedures, with many steps in the process being missed out. These missing steps often become apparent only when a change to the company’s constituent documents is required, and the change is rejected by the tax authorities due to the authorities’ discovery of earlier violations in the registration process. Resolving these issues at a later date can be more time consuming and costly than simply undertaking the standard company registration route.

“Off the shelf” companies are also available, although it is not advisable to purchase one. There are inherent risks, including potential liabilities (e.g. tax liabilities) involved in acquiring a company that could have been previously used for undisclosed purposes. Additionally, to successfully change the ownership of a company (involving more than 25% of voting shares in a JSC and more than 1/3 of participation interests in an LLC), sometimes prior approval from the Federal Antimonopoly Service is required.

In all cases, any change in ownership must be registered, and this can take as much time as forming a new company.
**Number of shareholders or participants**

It only takes one participant (individual or legal entity) to establish an LLC and/or a JSC. However, LLCs and JSCs cannot be established by another solely-owned legal entity.

The maximum number of participants in an LLC is limited to 50 people. If the number of participants in an LLC exceeds 50, then the LLC should be reorganised into a JSC or a production cooperative within one year. The number of shareholders in a JSC is not limited by law.

**Managing directors**

The statutory minimum charter capital for an LLC is RUB10,000 (approximately USD153).

**Payment of capital**

For an LLC, 100% of the charter capital should be paid within 4 months from the date of its registration with the state. Alternatively, at the discretion of the founder, the charter capital can be paid in full or partially before the LLC is state registered. If this option is chosen, a temporary account should be opened by the founder(s) in a Russian bank. Upon registration of the LLC, this account should be closed and the funds transferred to current accounts that have been opened.

For a JSC, 50% of the charter capital must be paid within three months of its state registration, and the balance must be paid in full within the year following state registration.

**Bank accounts**

Rouble and foreign currency accounts can be opened after registration, though they must meet certain government and bank requirements.

**Establishment costs (LLC, JSC)**

A shareholder (participant) in an LLC or JSC must pay a state registration fee of RUB4,000 (approximately USD62), which is payable at the moment the registration documents are filed. In addition, if a JSC wants its share issue to be registered, there is a registration fee of up to RUB200,000 (approximately USD3,080).

There are additional fees for translating and notarising documents. Professional fees for document collection, the preparation of an organisation’s documents, and document submission range from USD7,000 to USD10,000 for an LLC and from USD13,000 to USD16,000 for a JSC (fees for having the entity established in Moscow).

**Net assets position**

If an LLC’s or JSC’s net assets on its balance-sheet fall below its charter capital as of the end of the financial year, with the exception of the first two financial years, the company must undertake one of the following actions:

1. Increase its net assets; or
2. Reduce its charter capital to an amount not exceeding its net assets (but not lower than the statutory minimum amount of charter capital).

If, for the same period as indicated above, an LLC or a JSC has net assets worth less than the minimum charter capital required by law, the company is subject to being liquidated. In the event that voluntary liquidation is not undertaken by the shareholders or participants, then the government authorities are likely to petition a court for liquidation, and creditors are likely to demand early termination or the fulfillment of obligations and compensation for losses. In practice, forced liquidation is rare if a company meets its obligations (including taxes).

**Charter capital contributions**

Can be made in monetary form or in-kind. Monetary contributions should not be any less than the statutory minimum charter capital. In-kind contributions require independent appraisal (irrespective of their value).
Debt-to-equity conversion

According to Russian corporate law, converting debt into equity is an option available to both LLCs and JSCs, excluding credit organisations (banks).

An LLC’s debt can be converted into equity in two cases. In the first, an LLC owes debt to a participant, and the participant exchanges the debt for additional charter capital. In the second, the LLC is indebted to a third party, and the third party can exchange the debt for a participatory interest equal to the amount owed.

Shareholders are permitted to off-set their monetary claims against a company by purchasing additional shares in the JSC only if the shares are issued via a closed subscription.

Liquidation

A company can be liquidated by:
- A decision made at a general shareholders / participants meeting;
- A court decision if the company has become insolvent or bankrupt;
- A court decision if the company has grossly violated certain laws;
- A court decision if the goals, which the company was established to achieve, cannot be realised;
- Expiration of the term or achievement of the goal for which the company was established (if provided for by the charter).

Liquidation procedures include forming a liquidation commission, notifying creditors via issuing announcements on liquidation in mass media outlets, settling creditors’ claims, distributing the remaining assets among the shareholders / participants, and deregistering the company with the state authorities with which the company originally registered. Tax deregistration can cause significant delays in completing the procedures, as a tax audit is performed before tax deregistration is permitted.

Once a liquidation commission has been appointed, all rights to manage the company are transferred to the commission.

If the liquidated company does not have sufficient assets to discharge its liabilities, insolvency procedures are applied.

Insolvency

Bankruptcy law provides protection to the creditors of legal entities and outlines the procedures to be followed in the event of bankruptcy. Bankruptcy is understood as the inability to satisfy all pecuniary claims made by creditors or the inability to meet and execute pecuniary obligations as recognised by a court. A legal entity is considered insolvent and consequently can be declared bankrupt by a court if it fails to meet its pecuniary obligations for three consecutive months after the date on which the obligations were due.

Bankruptcy legal proceedings can be initiated if the debt owed to a legal entity is at least RUB300,000 (approximately USD4,600).

Reorganisation

Mergers, consolidations, split-ups, spin-offs and transformations are permitted under the Civil Code, under JSC law and under LLC law. It is possible to reorganise an entity via a simultaneous combination of the above different forms of reorganisation.

Reorganisation entails a number of steps, e.g. a tax audit of the company by the Russian tax authorities; written notification to creditors, who are entitled to request that the company’s obligations be prematurely terminated or accelerated; etc. This can mean that completion of a reorganisation can require considerable time and effort for an individual entity.
Labour Law

Labour regulations
Relations between employers and employees are primarily regulated by the Labour Code of the Russian Federation (the Labour Code).

Employment relations in the Russian Federation are regulated by the Labour Code, as well as other legal acts that also regulate labour. These include collective/industry-specific agreements, internal policies, decrees and acts adopted by employers, as well as employer agreements with their staff (if any agreements exist) and direct employment contracts with actual employees.

Russian labour legislation provides employees with rights and benefits, and governs the types of employment contracts that can exist along with the terms under which they can be concluded, amended and terminated.

Importantly, the Labour Code provides that no employment contract can stipulate conditions that are worse than the minimum provisions provided for under Russian labour legislation.

Social partnerships
The Labour Code establishes a set of principles providing for social partnership in labour relationships. Social partnership is defined as the system of relations between employees, employers, the state and local authorities, aimed at regulating and balancing the interests of the employees and employers in their labour relations. The following areas of interest, among others, are regulated:

- Negotiation of collective agreements;
- Mutual consultation on employment issues;
- Participation of employees in the management of the company;
- Involvement of all parties in negotiations / disputes before things go to court.

Collective agreements
A collective agreement can be concluded between an employer and its employees. The law does not require a collective agreement if neither party requests it. If a collective agreement is signed, then a trade union usually represents the employees. The employer is represented by the general director or his/her authorized representative(s).

The law allows the parties to define the content of any collective agreement independently; however, the contents must not make any conditions worse than the minimum standards provided for by the Labour Code. The collective agreement is subject to registration with the appropriate State Labour Office.

Role of trade unions
According to the Labour Code, an employer is obliged to consider the opinion of a trade union(s) (if such a union exists) on certain matters. In Russia, trade unions are more typically formed at company level rather than at industry level.

Employment conditions
Employee guarantees
Russian labour legislation provides certain guarantees for employees, in particular:

- Standard working hours are not to exceed 40 hours per week.
Overtime is permitted for some employee categories in specific circumstances, subject to certain conditions being fulfilled. In general, overtime should not exceed four hours in two successive days or 120 hours per year. Overtime is payable at the following rates: no less than 1.5 times the normal salary rate per hour for the first two hours, and no less than twice the normal rate for subsequent hours and for work on weekends and non-working days. Employees additionally have the right to demand additional days off as compensation for overtime.

An employer does not have the right to require that an employee performs functions beyond those set out in his/her employment contract, unless business circumstances require otherwise, in which case the employer has the right to transfer the employee to a position in a different line of work for a period not exceeding one month. An employee can be assigned to a job requiring lower qualifications only subject to the employee’s written consent. If the employer needs additional work performing by the employee, then the employee needs to provide his or her written consent and the relevant paperwork needs to be completed.

Employees are entitled to 14 paid non-working days of public holidays and annual leave of at least 28 calendar days. For some categories of employee, the minimum annual paid leave established by legislation can exceed 28 calendar days.

An employee is entitled to a sick leave allowance, paid by his/her employer and the Social Insurance Fund, based on the employee’s salary. This allowance is between 60% and 100% of the employee’s salary, depending on length of service. However, for 2016, this cannot be more than RUB 1,772.6 per day. Employers may pay temporary disability benefits at a higher rate at the employer’s expense.

Legislation also provides wages covering time spent travelling on behalf of work, for performance of the functions of a trade union officer, for appearing in court, for going to vote, and for fulfilling other state or social duties.

In certain situations, legislation provides severance pay.

Women are entitled to maternity leave for 70 calendar days (84 days if this is not the first child) prior to childbirth and 70 calendar days (86 days if there were complications with the birth, and 110 for the birth of twins, triplets, etc) after childbirth. Maternity leave is granted along with social insurance benefits, which are paid in amounts defined by statutory legislation. Regardless of her period of employment with a specific company, a woman is also entitled to annual paid vacation, which can be taken either before or immediately after maternity leave, as well as leave until the child’s third birthday. During her maternity leave and until the child reaches one-and-a-half years of age, the woman is paid a social insurance allowance. Fathers, grandparents and other relatives are entitled to baby care leave only under certain circumstances.

Employees have the right to organise trade unions and participate in the management of the company. Generally, trade unions represent the interests of the employees in their dealings with the employer, ensure that the terms of collective agreements are being complied with, and participate in resolving labour disputes in accordance with statutory legislation.
Employment contracts can be concluded for:
- An indefinite term; or
- A fixed term not exceeding five years.

Fixed term contracts are only allowed when employment relationships cannot be established for an indefinite term and specific conditions have been satisfied. In particular, fixed term contracts are permitted, inter alia, for the following types of employees:
- Directors, deputy directors, chief accountants;
- Employees working in companies created for a specific project;
- Part-time workers (having more than one job);
- Individuals in full-time education.

Employers are required to sign individual written employment contracts with each of their employees. After the contract is signed, a respective order admitting the employee into work within the company should be issued by the general director.

The grounds for terminating employment under Russian employment legislation include, inter alia:
- Mutual agreement that has been reached by both parties;
- Expiry of the term of the employment contract;
- Cancellation of the employment contract upon the initiative of the employer (as discussed below) or the employee;
- Refusal by the employee to continue working due to a change in the ownership / management or control of the employer, or due to the employer undergoing restructuring;
- Refusal of the employee to continue working after the employer has relocated.

In general, an employee has the right to terminate a contract by giving two weeks advance written notice to the employer, unless an earlier termination date is mutually agreed upon. A fixed term employment contract can be terminated by an employee if she is injured or disabled and unable to perform the required work, or if management violates employment legislation / the collective agreement / the employment contract, or if the employee has other good grounds for doing so. In some limited circumstances, the employee has the right to terminate an employment contract without prior notice.

In a limited number of cases, the employer has the right to terminate an employment contract. These include:
- An employee submitted false documents when hired;
- An employee fails to fulfill their work duties on a regular basis without any good reason for why they cannot; is absent without any good explanation; is inebriated at work; discloses state, commercial or the employer’s internal confidential information; steals from the employer; fails to comply with labour protection requirements, resulting in significant damages;
- The director of a company or company branch commits a single violation of their employment responsibilities;
- An employee with financial responsibilities commits an act which breaches the trust of the company.

Russian law states that employment contracts cannot be terminated on the initiative of the employer, inter alia, with the following types of employees:
- Pregnant women or women with children under the age of three;
- Single women with children under 14 or disabled children under 16.

Where employees are less than 18 years of age, an employment contract can be terminated only with the approval of the State Labour Inspectorate and Commission on Minors.

It can prove difficult to terminate an employment contract on the grounds that the employee is not suitable for the position unless there are clear job requirements with demonstrable failings by the employee. Courts generally rule in favour of the employee when considering cases of alleged wrongful dismissal. In practice, companies seek, where possible, to secure the employee’s voluntary resignation.

**The Labour Code prohibits employers from initiating termination procedures against certain categories of employees.**

**Work book**

Russian labour legislation requires that a work book be kept for each employee who has worked for at least five days at a company, if this work is the employee’s main employment. This is a fundamentally important document in which the employment history of
Each individual is recorded over his/her lifetime. This work book indicates the grounds for termination of employment contracts and records rewards and achievements at work, the work performed by an employee, transfers to another place of permanent work, etc.

Every entry into the work book is attested by the signature of the authorised representative of the employer and by the employer’s stamp.

**Employee Trial Periods**

Trial periods (typically up to a maximum of three months) are permitted to assess the suitability of employees for a position. Certain categories of employees are not subject to trial periods (e.g. pregnant women, minors, transferees). The trial period can be extended to six months for directors, deputy directors, chief accountants, deputy chief accountants and directors of branches, representative offices or other divisions.

**Salary**

The Labour Code guarantees timely salary payments to employees as follows:

The employer should pay salaries at least twice a month. If salary payment is delayed by more than 15 days, the employee has the right to notify the employer and stop working. If this happens, the employer is likely to be obligated by a court to reimburse the employee for each idle day with two-thirds of the average salary (calculated based on the actual salary accrued and the actual working time for the past 12 months).

The employer must also pay interest on each day of delayed salary payment. The amount must be no less than 1/300th of the refinancing rate of the Bank of Russia.

Administrative fines can be levied on employers (RUB 30,000 to RUB 50,000) and their responsible officials (RUB 1000 to RUB 5000) for delayed salary payments. In some cases, the employer’s business activities can be suspended for up to 90 calendar days. If the responsible official has already been penalised for delayed salary payments, then they can be prohibited from holding executive positions for a period of 1 to 3 years.

If salary payments are delayed for more than two months (three months in cases where partial delay of salary payment has occurred), criminal liability applies.

The Criminal Code provides that if it can be proven that employees were paid less than half of the salary payable to them due to the personal motives of the general director, or due to actions motivated by self-interest, then the general director can be fined up to RUB 120,000, or fined by an amount equal to his/her wage or income from other sources for a period of up to one year. The general director may also be disqualified from occupying certain positions or engaging in certain activities for a period of up to one year, or the general director may be subject to a forced labour for a term of up to two years, or the general director may even be imprisoned for a term of up to one year.

More stringent criminal liability applies if the salary payments are delayed in full for more than two months, or if salary is paid at an amount below the Federal minimum salary level (as of 1 July 2016, that level is RUB 7,500) for more than two months, or if the above mentioned violations caused severe consequences.

**Minimum statutory monthly salary**

The minimum statutory monthly salary is used to regulate wages, compensation and other payments made under labour legislation, and also to calculate taxes, levies, penalties and other payments.

As of 1 July 2016, the Federal minimum statutory monthly salary is RUB 7,500. This minimum statutory monthly salary is used only to calculate labour remuneration and allowances covering temporary inability to work.

Different levels of minimum salary may be established by regional local authorities in Russia, but these levels cannot be lower than the Federal minimum level. As of 1 November 2016 the minimum salary level for Moscow is RUB 17,300.
For the purposes of calculating taxes, levies, penalties, liabilities under civil transactions, etc., the relevant minimum statutory monthly salary of RUB 100 is applied.

**Currency and form of salary payment**

Direct salary payment to employees in Russia in a foreign currency is prohibited.

In Russia, salaries are normally paid in roubles. However, in accordance with collective agreements or employment contracts signed upon the written request of an employee, workers can be remunerated in other forms as long as they do not contradict Russian legislation or international treaties to which Russia is party. The percentage of remuneration made in non-monetary form cannot exceed 20% of an employee’s total salary.

**Severance payments**

The Labour Code requires severance pay to equal at least two-week’s average earnings when an employment contract is terminated due to the following reasons:

- The drafting or enlisting of an employee into military or alternative civil service;
- The refusal of an employee to be transferred to work in another location should the enterprise, institution or organisation relocate;
- An employee is unable to work pursuant to a medical certificate issued in accordance with legislation;
- Refusal to continue work due to a unilateral change to the labour agreement conditions made by the employer (such changes are only possible in exceptional circumstances);
- An employee who previously held the position is being reinstated after a period of leave (i.e. maternity leave comes to an end);
- Refusal of an employee to find a new job should the relevant medical authorities prescribe this course of action for the employee, or if the employer is not able to offer relevant work.

If an enterprise, institution, or organisation is dissolved, or if there need to be staffing cuts, then a one-off payment of monthly average earnings is required. Additional payments are required if the dismissed employee is unable to find work, but no more than two months’ worth of payments (three months subject to specific conditions).

**Work permits for foreign nationals**

As a general rule, foreign nationals working in Russia are required to have a work permit. There are a few exceptions to this rule, mainly related to certain CIS nationals and other foreign nationals who possess residency permits. Work permits are not always required for the employees of suppliers or manufacturers of equipment imported into Russia for the purpose of installing, supervising the installation of, or servicing the equipment.

The standard work permit application process is quite a lengthy and burdensome procedure consisting of several stages. Each stage involves the submission of applications together with an extensive list of documents.

The stages include:

- Registration with the local employment authorities;
- Submission of a notification to the Employment Service stating that there are vacancies in the company for which only the employment of foreign citizens will satisfy. The Authorities must reach a conclusion that this is correct;
- Application for a corporate permit from the immigration authorities to engage foreign labour;
- Application to the immigration authorities for each expatriate’s individual Work Permit.

Typically it takes more than four months to obtain an individual work permit.

The individual permit is issued for a period of up to one year.
In a separate process, but based on the work permit, a work visa must be obtained. Its procurement also involves several stages in which a specified set of documents must be submitted to the immigration authorities.

It should be noted regarding work permits that each year, by 15 July, companies must report the number of foreign employees they anticipate to engage in the next calendar year. This procedure effectively constitutes a quota application system. If the employer does not comply with this and does not receive notification that they have an approved quota, the employer will have any work permit applications rejected. A company that fails to file a quota application or whose application was denied or partially approved has the right to use a list of quota-exempt positions when applying for a work permit, but only if the application meets all of the quota exemption requirements.

**Work permit applications for Highly Qualified Specialists (HQS)**

Since 1 July 2010, a simplified procedure for obtaining Individual Permits for HQS has been in force. A HQS is a highly-skilled professional who is a foreign employee and who has work experience and skills or achievements in a certain area and whose annual salary is generally not less than RUB 2,000,000.

Obtaining Individual Permits for foreign nationals to work as HQS has the following benefits:

- The Russian employer does not need to obtain a Corporate Permit;
- The quota system does not apply to HQS professionals;
- The Individual Permit can be issued for a term of up to three years;
- A HQS professional has the right to obtain multiple work visas for a term of up to three years;
- The procedure to obtain an Individual Permit for HQS professionals takes about fourteen business days from the moment a complete package of documents is submitted;
- An income tax rate of 13% applies to the salary paid to an HQS under their relevant employment contract, irrespective of their tax residence status in Russia;
- Extended stays for business trips outside the region / regions for which the HQS Individual Permit was obtained are allowed, as compared to the standard Individual Permit.

**Migration registration procedure**

Migration registration is the process of notifying the immigration authorities of a foreign citizen’s whereabouts (international travel, as well as internal trips within Russia). It is the hosting party which is responsible for carrying out registration. The hosting party is either the hotel or the employer (visa sponsor), or a landlord if the foreign national is not staying in a hotel.

Upon arrival in Russia, each foreign national must be registered in Russia at their host location.

This process should be completed within seven business days of arrival every time a foreign national arrives in Russia or travels to another region (changes location) within Russia for more than seven business days.

HQS professionals and their family members are exempt from registration procedures if they arrive and stay in Russia for a period that does not exceed 90 days, and are exempt for 30 days if they travel to another region in Russia. If HQS professionals and their family members stay in Russia for more than 90 days (or 30 days if traveling to another region), they are required to be registered with the immigration authorities.
Business Taxation

Tax system overview

Russian tax legislation comprises the Tax Code of the Russian Federation (hereinafter, the “Tax Code”) and laws arising from it.

Taxes and levies are imposed in Russia at all levels: Federal, regional and local.

Federal taxes and levies are those established by the Tax Code and by Federal Law, and are paid throughout the Russian Federation.

As of 1 January 2016, the following Federal taxes and levies are effective:

- Value-Added Tax (VAT);
- Excise tax;
- Personal Income Tax (PIT);
- Profits tax;
- Mineral extraction tax;
- Water tax;
- Levies on the consumption of natural and biological resources;
- State duties and registration fees.

Regional taxes and levies are those established by the Tax Code and by specific regional tax laws effective in the regions of the Russian Federation and only paid in those specific regions. Regional taxes include property tax, gambling tax and transport tax.

Local taxes and levies are those introduced by the Tax Code and by the regulations of municipal authorities, and which are paid only in that particular municipal area. Local taxes consist of land tax, personal property tax and trade tax.

Local (or regional) legislative bodies only have the right to introduce the taxes and levies delegated to their authority by the Tax Code. When deciding on tax rates, local or regional authorities are allowed to establish the following taxation aspects:

- Tax concessions;
- Tax rates (within limits established by the Tax Code);
- Procedures and deadlines for tax payments.

The tax system outlined above results in different tax burdens for taxpayers registered in different regions.

Tax registration requirements

No separate tax registration needs to take place in order to pay VAT or profits tax, as taxpayers need only obtain one single tax ID number for all taxes. However, taxpayers have to obtain supplementary tax registration ID numbers (‘KPP’) from the tax authorities for the places where their separate subdivisions are located.

A separate subdivision is a subdivision located somewhere else other than the head office (e.g. in another city). A separate subdivision implies the creation of stationary working places for periods of longer than one month. Foreign Legal Entities (FLEs) have to register with the local tax authorities within 30 calendar days from the date that their activities begin at that location.
**Value Added Tax**

Value Added Tax (VAT) is an indirect tax – the burden of which is carried by the end-customer – that must be calculated and paid to the Russian federal budget by the supplier.

**Taxable Supplies**

Generally, VAT should be charged by taxpayers (companies, individual entrepreneurs, importers) on the following transactions:

- The sale of goods, work, and services, provided that the sales take place on the territory of the Russian Federation, including the free-of-charge supply of goods and the transfer of property rights;
- The transfer of goods, work, and services for the taxpayer’s own needs if the expenses incurred are non-deductible when it comes to profits tax (including depreciation charges);
- Construction and assembly work carried out by the taxpayer for its own purposes;
- The import of goods into Russia and to other territories under Russian jurisdiction.

**Place of Supply Rules**

The Russian Tax Code stipulates specific ‘place of supply’ rules that determine whether goods, work or services are supplied in Russia and thus whether they are subject to Russian VAT.

Goods are deemed to be supplied on Russian territory for VAT purposes if:

- the goods at the beginning of their shipment or transportation are located in Russia or on other territories under Russian jurisdiction;
- the goods at the moment of their sale are located in Russia or on other territories under Russian jurisdiction, and are not transported/shipped. Notably, the shipment or sale of hydrocarbons or hydrocarbon products from the territory of the Russian continental shelf is considered as supply on Russian territory.

Generally, work is / services are deemed to be supplied in Russia if the supplier of the work / services has a place of business in Russia (the default ‘place of supply’ rule). However, there is a closed list of exceptions to the default ‘place of supply’ rule in the Russian Tax Code relating to certain types of work / services, in particular:

- services directly connected with movable / immovable property located in Russia are considered as rendered in Russia;
- certain services are considered to be rendered in Russia if the service recipient’s place of business is Russia. This exception relates, in particular, to consulting, marketing, and engineering services; the transfer, provision of patents, licences, trademarks, copyrights or other similar rights; services regarding the development of software and databases; transportation and freight forwarding services (under certain conditions); etc;
- some services are deemed to be rendered in Russia if they are actually rendered on Russian territory. This exception relates in particular to education (training) services.

**Tax Agent Mechanism**

If foreign companies that are not registered with the Russian tax authorities supply goods, work or services in Russia, and these supplies are deemed to have taken place in Russia in accordance with the ‘place of supply’ rule, the buyer (tax-registered in Russia) is required to calculate the amount of Russian VAT, withhold this VAT from the amount of fee payable to the foreign supplier, and remit that VAT to the Russian federal budget on behalf of the foreign company (the “tax agent” mechanism).

Having withheld and paid the VAT to the state budget, the buyer may claim this VAT for recovery against its output VAT under the general conditions covering the recovery of input VAT.
**VAT Base**

VAT should be calculated and paid upon receipt of prepayments and/or on the total transaction price at the moment the goods are shipped, when work is performed, services are rendered or property rights are transferred. If the moment of payment differs from the moment that shipping takes place, VAT should be accounted at the earlier of the two dates. If the date the taxable base is calculated is the date of prepayment, then the taxpayer is obliged to calculate the taxable base again at the moment of shipment. VAT paid with respect to prepayments can subsequently be claimed for recovery after shipment. When VAT is calculated by the tax agent, the obligation to withhold VAT by the tax agent occurs at the moment consideration is paid to the foreign seller, not registered with the Russian tax authorities.

**Recovery of VAT**

Generally, Russian taxpayers are entitled to claim for recovery input VAT related to purchased goods, work, or services, property rights, VAT paid under the reverse-charge mechanism, and VAT paid when importing goods into Russia, provided that:

- the goods, work, services and property rights are acquired in order to carry out VAT-able transactions in Russia;
- the goods, works, services and property rights are booked in the taxpayer’s accounts and the taxpayer has the respective primary documents;
- the taxpayer has VAT invoices prepared in accordance with the requirements provided by the Russian Tax Code (documents confirming payment of VAT for cases involving the recovery of import VAT and payment of VAT under the reverse charge-mechanism).

Under certain conditions, it is also possible for taxpayers who made prepayments to suppliers to recover the VAT amount included in the prepayment amount.

When the taxpayer carries out both VAT-able and non-VAT-able activities and/or a 0% VAT rate applies to certain transactions, in most cases the taxpayer should account for supplies and the respective amount of input VAT separately. Recovery of VAT in these cases is subject to specific rules (proportional recovery, the requirement to collect additional supporting documents, etc.).

**VAT Invoice**

A VAT invoice is a special VAT document needed for VAT recovery. The structure of this document is established by the Russian Government. The VAT invoice differs from a commercial invoice and can be issued either in hardcopy or in electronic format (if electronic document exchange with...
the counterparty is agreed, it must be conducted in accordance with specific legal requirements).

The taxpayer is obliged to register its issued VAT invoices in the sales book and its received VAT invoices in the purchase book in all cases when the respective transaction is subject to VAT in accordance with the Russian VAT law. In some cases, taxpayers are not required to issue VAT invoices, in particular if they perform transactions that are VAT exempt. If supplies are provided to buyers that do not pay VAT or that are exempted from the obligation to pay VAT, it is permissible – upon the mutual consent of both parties – for VAT invoices not to be issued.

When the value of goods, work or services has been changed (in particular, when changes have taken place in the price of the goods, work or services or the amount), the seller should issue a corrective VAT invoice and the parties should correct their VAT obligations in the way prescribed by Russian VAT law.

**VAT Rates**

Generally, the sale of goods, work and services is taxable at a standard VAT rate of 18%.

A reduced VAT rate of 10% applies to the sale of certain types of medical goods, books and periodicals, foods and children’s goods (in accordance with a list of goods provided by the Government of the Russian Federation).

The sale of certain types of goods, work and services is subject to a zero-percent VAT rate. The zero percent VAT rate applies, inter alia to: export sales; international transportation services and related freight forwarding services; transportation and the rendering of certain services related to the transportation of oil, oil products, natural gas and electricity power outside Russia; certain types of air transportation; certain services rendered at river and sea ports; and certain services rendered by Russian railway carriers in relation to the international transportation of goods.

To apply a zero-percent VAT rate, the supplier should collect the necessary supporting documents within the established time limit and submit a VAT return with the supporting documents to the Russian tax authorities.

**Exemptions**

Certain activity types are subject to exemption from VAT, in particular:

- Leasing premises located in Russia to foreign individuals and foreign entities accredited in Russia (if there are reciprocity rules applying in the respective foreign jurisdiction);
- Selling residential real estate, certain medical goods, medical services, foods produced by school cafeterias, public conveyance services on specific types of transport, ceremonial services, supply of religious goods, educational services rendered by licensed nonprofit educational institutions, certain services in the sphere of art and culture, etc.;
- Repair and technical maintenance services rendered free of additional charge within the warranty period of the goods (including the value of spare parts related to these goods);
- Banking operations and insurance services; REPO operations;
- The transfer of certain types of intellectual property (IP) rights or the transfer of rights allowing for IP to be used on the basis of a licence agreement.

The import of certain types of goods into Russia can also be VAT-exempt.

The Russian Tax Code provides for certain types of VAT exemptions, in particular exemptions related to financial and social welfare services.
The legislation of the Eurasian Customs Union between Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan (the Customs Union) establishes special VAT rules with respect to transactions between citizens in the different member states of the Customs Union. The export of goods from one member state to another is subject to a zero-percent VAT rate. The zero-percent VAT rate should be supported by provision of the relevant documents, including documents showing the application to import the goods and that the import VAT has been paid. The documents should be stamped by the tax authority of the member state where the goods were exported.

The import of goods from one member state to another is subject to import VAT in the other member state. A taxpayer is obliged to submit a separate VAT return with respect to the import of goods from the other Customs Union country.

VAT Payable to the Russian State Budget
VAT payable to the Russian state budget is generally determined as the difference between the amount of output VAT accounted for on supplies subject to VAT, and the amount of input VAT incurred on purchases (plus the amount due to be paid to the budget in special cases) in a respective tax period. An excess of input VAT over output VAT could be refunded to the taxpayer from the state budget upon submission of a special application. Generally, VAT refunds can only be made after the tax authorities have performed a ‘desk tax audit’ and confirmed the legitimacy of the input VAT claimed. Since 2010, taxpayers have also been entitled to VAT refunds through use of the accelerated VAT refund procedure, which generally allows them to receive a cash tax refund prior to completion of the desk tax audit. However, this procedure can apply only if the taxpayer has paid RUB7 billion of taxes for three consecutive years, or if the taxpayer provides a bank guarantee, or if it is resident in a territory classified as being of “advanced social and economic development”, or a resident of the port of Vladivostok.

VAT Payment and Filing
VAT returns should be submitted quarterly in electronic form by no later than the twenty-fifth day of the month following the quarter that has ended. Generally, the VAT should be paid by one third of the amount due by the twenty-fifth day of each of the three consecutive months following the reporting quarter.
Profits tax

Tax base

Taxable profit is calculated as income minus the expenses recorded in the tax accounts.

Income is generally determined on an accrual basis. Application of a cash basis is allowed only if average sales proceeds for four consecutive quarters are less than RUB 1,000,000, excluding VAT per quarter (USD 15,012).

Expenses are deductible if they are incurred to generate income, are economically justifiable and are properly documented. There are some expenses specifically mentioned in the Tax Code that are also treated as non-deductible.

Consolidated profits tax reporting is allowed only if the parent company has a 90% or higher share in a subsidiary, and the total annual amount of the VAT, excise taxes, profits tax and mineral extraction tax is RUB 10 billion or more (USD 150 million). Additionally, the group’s total sales must be RUB 100 billion or more (USD 1.5 billion), and total assets must be RUB 300 billion or more (USD 4.5 billion). Consequently, only a few major Russian companies are able to use consolidated profits tax reporting.

Agreements on the creation of consolidated groups of taxpayers for the purposes of consolidated profits tax reporting will not be registered in 2016-2017. Starting from 2018, consolidated groups of taxpayers can be created for at least five years.

Tax rates

The maximum profits tax rate is 20%, including 2% paid to the Federal budget and 18% to the regional budget. The regional profits tax rate can be reduced to 13.5% at the discretion of the regional authorities.

Certain types of income are taxed via a withholding mechanism at flat rates stipulated by the Tax Code (see the section Withholding income tax, p. 31).

Tax concessions

Gratuitous receipt of assets from a parent company, a subsidiary or an individual is not classed as taxable income if:

- The recipient’s or transferor’s ownership in the other party’s share capital amounts to more than 50% (with the exception of transferors incorporated in one of the countries on a list (of offshore zones) issued by the Ministry of Finance);
- The individual owns more than 50% of the recipient company;
- The property received (except for money) is not disposed of within one year from the date of receipt.

Receipt of property, property rights or non-property rights from a shareholder in order to increase net assets, as well as the forgiveness of debt by a shareholder, does not result in taxable income, regardless of the percentage of shares owned by the contributing shareholder.

Tax losses can be carried forward for 10 years.

Tax accounting

The Tax Code requires taxpayers (including permanent establishments) to maintain separate accounts for profits tax purposes. Tax accounting rules differ from Russian statutory accounting principles (e.g. with regard to depreciation, recognition of interest expenses, etc.).

The methodology applied for profits tax purposes should be clearly explained in the taxpayer’s tax accounting policy. Once chosen, the tax accounting policy cannot be changed during the financial year, except in response to legislative changes.

Taxation of Foreign Legal Entities (FLEs)

For FLEs whose activities in the Russian Federation give rise to permanent establishments (PE), profits tax on income minus the expenses attributable to the Russian PE is due.

Under Russian tax legislation, the activities of a FLE give rise to a PE:

1. If a FLE has a place of business in Russia (branch, office, bureau or other independent subdivision), and the FLE conducts business activities in Russia on a regular basis. In particular, a construction site located in Russia, under certain circumstances, can be considered

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3 Actual exchange rate of the Central Bank of the Russian Federation as of 2 June 2016 (RUB 66,6156 : USD1)
Employers which operate hazardous and dangerous places of work are required to pay additional contributions to the Russian Pension Fund. The rate of the additional contribution varies from 0% to 8%, depending on how the working conditions are assessed during a special assessment procedure. If the employer does carry out an assessment of its working conditions, the additional contribution is payable in 2016 at the rate of 9% or 6%, depending on the type of employer.

A foreign national’s contributions are paid in full on the remuneration they earn in Russia based on their Russian permanent or temporary residence permit.

An employer of foreign nationals who are staying temporarily in Russia on a visa must pay personal contributions to the Pension Fund and to the Social Insurance Fund (unless the employee is a HQS). No personified contributions are payable for HQS.

Personal contribution concessions
Reduced insurance contribution rates apply to agricultural producers, businesses in technology and innovation special economic zones, taxpayers applying the simplified tax regime (for certain activity types), legal entities employing disabled individuals (provided that certain conditions are met), and IT companies, among others.

<table>
<thead>
<tr>
<th>Type of insurance contribution</th>
<th>Annual threshold per employee</th>
<th>Rates on remuneration up to the threshold</th>
<th>Rates on remuneration in excess of the threshold</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension Fund</td>
<td>RUB796,000</td>
<td>22%</td>
<td>10%</td>
</tr>
<tr>
<td>Social Insurance Fund</td>
<td>RUB718,000</td>
<td>2.9%</td>
<td>-</td>
</tr>
<tr>
<td>Federal Mandatory Medical Insurance Fund</td>
<td>n/a</td>
<td>5.1%</td>
<td>5.1%</td>
</tr>
</tbody>
</table>
**Mandatory social insurance against occupational accidents and diseases**

Apart from the aforementioned personified contributions, employers are required to pay mandatory social insurance contributions against occupational accidents and diseases. These contributions are payable on the total payroll at a flat rate that varies depending on the risk category that the employing company belongs to, in accordance with the Russian Social Insurance Fund’s assessment. The minimum rate is 0.2% of payroll; the maximum rate is 8.5%. Generally, office activity is subject to insurance contributions against injuries and professional illness at a rate of 0.2%.

**Filing and payment**

Insurance contributions are payable on a monthly basis.

Generally, those making payments should file various reports with the Pension Fund and the Social Insurance Fund on a quarterly basis.

**Withholding income tax**

A FLE in receipt of income sourced in Russia which is not attributable to its Russian PE (e.g. rent, royalties, interest and dividends, freight income, etc.) is subject to withholding income tax at source.

Income derived from the business activities of the FLE in Russia (e.g. nonrecurring consultancy services) which do not give rise to a PE are exempt from withholding income tax. There is no withholding tax on the repatriation of profits from a local Russian representative office or from the branch of a FLE to the head office. However, the proceeds from liquidation are subject to taxation at source.

**Tax rates**

Withholding income tax rates vary depending on the type of taxable income.

Tax rates for dividend income are:
- 0% on dividends payable to a Russian legal entity (RLE) if this RLE has owned at least 50% of the shares in the dividend payer for 365 consecutive days, providing that the dividend payer is not resident in an offshore country (e.g. the British Virgin Islands, Guernsey, Jersey, or any other state on a list compiled by the Ministry of Finance of the Russian Federation).
- 13% on dividends received by an RLE from a RLE or Foreign Legal Entity (except for FLEs incorporated in the countries on the Ministry of Finance’s list).
- 15% on dividends payable to a FLE by a RLE.

Generally, Foreign Legal Entities having no Permanent Establishment in Russia are subject to 20% withholding income tax on most Russian-sourced income, such as interest, royalties, income from leasing and rental operations, etc. Freight income is taxed at 10%.

Withholding income tax rates can be reduced in accordance with double tax treaties concluded between the Russian Federation and the actual country of the beneficiary’s residence.

For a list of double tax treaties and the withholding tax rates applicable under these treaties on dividends, interest, and royalties, see Appendix 1. Chart of Withholding tax rates, p.47.

A FLE should confirm that it is resident in a country that is party to a double tax treaty with the Russian Federation in order to enjoy the reduced withholding income tax rates. Confirmation must be documented in a certificate issued by the relevant foreign authorities. A FLE should be ready to confirm that it is the actual beneficiary of the income received.

In the absence of a proper certificate or confirmation of actual beneficiary status, tax should be withheld and remitted to the budget at the standard rate.

**Filing and payment**

Income tax should be withheld from the income payable to the FLE and remitted to the budget on the date when payment is made to the FLE.

A Russian Legal Entity (or FLE with a PE in Russia) should also file a withholding income tax calculation.
Property tax

Property tax is levied on those properties listed on a taxpayer’s balance sheet as fixed assets (except for land plots).

**Tax base**

Generally the tax base is the net book value of the average annual fixed assets according to Russian statutory accounting. For a number of property types (administrative and business centres; nonresidential premises aimed to be used / actually used as offices or for trading and catering; a FLE’s immovable property that does not have PE status in Russia, or is not being used in the PE’s operations in Russia; residential premises not accounted for as a fixed asset on the balance sheet), the tax base is the cadastral value of the specific facility.

Movable property that has been booked as a fixed asset since 1 January 2013 is exempt from tax, except for facilities booked as a result of reorganisation or the liquidation of a legal entity, or as a result of a transfer between related parties.

FLEs having no PE in Russia are subject to property tax only on immovable property located in Russia.

**Tax rate**

The maximum tax rate is 2.2%.

Lower tax rates are established for assets classified as public railways, pipelines and power lines, and on assets constituting an integral, technical component of the above. A list of these types of assets has been compiled by the Government of the Russian Federation. The rates for these assets are 1.3% in 2016, 1.6% in 2017, and 1.9% in 2018.

The regional authorities can reduce the property tax rate to zero percent.

With respect to immovable property (for which the tax base is the cadastral value), the tax rate cannot exceed 2%.

**Tax concessions**

The Tax Code provides a number of property tax concessions. In particular, companies are exempt from property tax on assets classified as federal highways intended for public use and on assets constituting an integral, technical component of these highways. A list of these assets has been compiled by the Government of the Russian Federation.

Property tax paid by a Russian legal entity on property located outside of Russia can be offset when paying property tax in Russia. To carry out this offsetting, the taxpayer should submit a document confirming the payment of property tax abroad.

**Filing and payment**

The regional authorities set the terms for advance and final property tax payments.

Property tax calculations are filed quarterly. The annual property tax return should be filed by 30 March of the year following the reporting year.

**Other taxes**

**Transport tax**

Foreign legal entities and Russian legal entities should both pay transport tax if they own registered transport vehicles. Taxable vehicles include automobiles, motorcycles, scooters, buses, airplanes, helicopters, merchant vessels, yachts, sailing boats, boats, snowmobiles, etc. The tax base is calculated based on the engine volume, gross tonnage or type of vehicle.

The tax rates are established by the Tax Code and range from RUB 1 to RUB 200 (USD 0.02–3)⁴ per unit of horsepower and can increase or decrease by up to ten times, depending on the region.

The regional authorities are allowed to offer tax incentives and allowances for certain categories of taxpayer.

The terms for the submission of transport tax payments and the filing of advance calculations are established by the authorities of the region where the vehicle is registered. However, the final annual payment and annual tax return is due no earlier than 1 February of the following year.

**Land tax**

Land tax is calculated based on the cadastral value of land plots according to the Russian Federation legislation applicable to the region where the land plot is located.

The Tax Code provides that land tax rates for land designated for agricultural purposes and housing must not be higher than 0.3%, and no higher than 1.5% of the cadastral value of the land plot for land used for any other purposes. The regional authorities can decrease this rate and also offer tax incentives or allowances to certain taxpayer categories.

Advance payments are due quarterly, with the final tax payment due no earlier than 1 February of the following year.

**Water tax**

Water tax is payable by companies that consume water for special and clearly-indicated business purposes.

Tax rates differ for various types of water consumption and are set in RUB per 1000 cubic metres of water consumed.

Water tax returns are filed quarterly, with payments also being made quarterly.

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⁴ Actual exchange rate of the Central Bank of the Russian Federation as of 2 June 2016 (RUB 66.6156 : USD1)
Special tax regimes

The Tax Code also provides special tax regimes under which a taxpayer is entitled to pay one single tax instead of numerous different taxes. This regime can be applied if certain requirements are satisfied. Special tax regimes include simplified tax, unified agricultural tax, tax on imputed income and special rules on production sharing agreements.

Unified tax on imputed income
The local tax authorities allow certain taxpayers to apply a unified tax on imputed income if the taxpayers are engaged in:
– Domestic consumer services;
– Veterinary services;
– Vehicle maintenance, repair and washing;
– Leasing car parking places and car parking services;
– Passenger and cargo transportation services (certain restrictions apply);
– Retail trade and catering (certain restrictions apply);
– Certain kinds of advertising;
– Accommodation provision services (certain restrictions apply).

Unified imputed income tax is applicable if the taxpayer satisfies the following criteria:
– The average number of annual staff is equal to or lower than 100;
– Other legal entities have contributed less than 25% to the taxpayer’s share capital.

Unified imputed income tax taxpayers are exempt from the following taxes (with regard to those operations subject to this tax):
– Profits tax;
– VAT (except for VAT payable on imports);
– Property tax (except for tax payable based on cadastral value).

Unified imputed income tax is levied on a taxpayer’s imputed income. Imputed income is determined as the base return rate of business activity during the period multiplied by physical factors (the area of land employed, number of vehicles or number of staff) and other adjusting factors.

Unified imputed income tax is paid at a rate of 15%. The municipal authorities can decrease this rate to anything within a range from 7.5 to 15%, depending on the taxpayer’s category and the type of imputed activities.

The unified imputed income tax that is payable can be reduced (to 50% of the initial tax accrual) by deducting insurance contributions for mandatory pensions insurance, medical insurance and social insurance for temporary disability or maternity leave. It can also be reduced for mandatory social insurance against occupational accidents and diseases, as well as temporary disability payments to employees for the first 3 days of temporary disability paid by the employer, and for voluntary insurance payments under insurance contracts covering the employer’s expenses.

Tax returns and payments are due quarterly.
**Simplified taxation system**

The simplified tax system replaces profits tax, VAT (except for VAT payable on imports) and property tax (except for tax based on the cadastral value).

A company can apply the simplified tax system if it satisfies the following criteria in the first nine months of the year preceding its planned adoption of the simplified tax system:

- The company’s revenue for 9 months does not exceed RUB 45,000,000 (USD 675,517)\(^4\), though this limit is subject to annual indexation;
- The net book value of fixed assets does not exceed RUB 100,000,000 (USD 1,501,150)\(^*\);
- The average annual number of staff does not exceed 100.

The following entities cannot apply the simplified tax system:

- Russian legal entities with branches;
- Foreign legal entities and representative offices (branches) of FLEs;
- Banks, insurance companies, pension funds, investment funds, parties to production sharing agreements, unified agricultural tax taxpayers, etc.;
- Entities in which other legal entities have participation shares exceeding 25%.

The simplified tax rate can be:

- 6% on revenues. The regional authorities can decrease this rate to anything within a range from 1 to 6%, depending on the taxpayer’s category; or
- 15% on profits (revenues minus deductible expenses). The regional authorities can decrease this rate to anything within a range from 5 to 15%, depending on the taxpayer’s category.

Taxpayers must make quarterly advance payments, making the annual final payment by 31 March of the following calendar year. Advance tax estimates and annual tax returns are due within the same timeframes as their corresponding payments.

**Unified agricultural tax**

Agricultural producers are allowed to apply the unified agricultural tax. This tax replaces profits tax, VAT (except for VAT payable on imports) and property tax.

The unified agricultural tax is levied on income minus deductible expenses.

Income is calculated in accordance with general profits tax rules. Expenses are deductible only if they are referred to in the authorised list, economically justifiable and properly documented.

Unified agricultural tax is paid at a rate of 6%.

Advance payment is due after the first six months, with final payment and completion of the tax return due by 31 March of the following year.

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\(^{4}\) Actual exchange rate of the Central Bank of the Russian Federation as of 2 June 2016 (RUB 66.6156 : USD1)
A transfer price is a price subject to monitoring by the tax authorities. The Russian tax authorities can monitor prices to ensure that they reflect market realities and have not been fixed to reduce the burden of taxes in Russia.

Current Russian transfer pricing (hereinafter, “TP”) rules have been effective since 2012, and are based on OECD TP Guidelines, but have certain differences.

Transactions between related parties are subject to TP control (hereinafter, “Controlled Transactions”). Companies are considered related if one of them may influence the decisions made by the other. TP legislation also provides a list of the formal criteria against which parties are assessed when considering them related or not (e.g. do they have direct/indirect participation in the capital of 25% or more, etc). Please note that, in addition to cross-border transactions between related parties, the Russian tax authorities also control prices in domestic transactions if the amount between the two counterparties exceeds certain thresholds (generally, that threshold is RUB 1 billion). In addition, Controlled transactions include certain cross-border transactions between unrelated parties: (i) transactions with offshore parties, or (ii) transactions with certain commodities like oil products, precious metals, etc (if the amount is more than RUB 60 million).

There are five TP methods (similar to those in the OECD), from which the resale minus and CUP method have priority over other methods. Russian TP legislation also allows for the use of appraisal reports to support prices in one-off transactions when no other methods can be applied.

There are specific requirements regarding the selection of comparables for benchmarking studies, such as ensuring comparable activities, positive net assets, positive operating profits and the absence of a parent company/subsidiary with ownership of more than 25%. A local study is required if the tested party is the Russian company. Foreign comparables are acceptable if the foreign party is the tested one. As a general rule, the study should be based on the financial statements of comparables for the three preceding years.

Before the 20th of May of the year following the reporting year, all Russian taxpayers are obliged to inform the tax authorities of any transactions they performed which were subject to transfer pricing control under Russian tax law. The notification on a controlled transaction must include disclosure of detailed information about each operation within that controlled transaction. For instance, in regard to a buy-sell transaction, the price, quantity, place of dispatch, and place of delivery for every item must be specified. Understandably, the volume of data in the notification can be significant. It should be filed in XML-format with the Russian tax authorities.

Russia also has TP documentation requirements. The Russian tax authorities are able to request TP documentation during TP audits, and taxpayers must provide the documentation within 30 working days. The TP documentation for Russia should meet certain local requirements and be prepared annually.
Penalties for non-submission or omissions/mistakes in Controlled Transaction notifications aren’t significant (RUB 5000). The penalty for not applying arm’s length prices is 40% (20% during the 2014-2016 transition period) of the tax underpaid in Russia. However, this penalty does not apply if the taxpayer provides TP documentation supporting the arm’s length level of its prices. In addition to these penalties, late payment interest is also assessed on TP adjustments.

Both unilateral and bilateral Advanced Pricing Agreements (hereinafter – “APA”) are possible under the law, but use of APAs so far is not extensive. Currently, the Russian tax authorities have tended to try and reduce the number of new APAs. However, this practice may change in future.

In 2012, TP audits mainly covered export transactions with oil products, non-ferrous metals and fertilizers. The number of TP audits was limited (up to 20), but in certain cases the amount of tax adjustments was material. It is expected that over the next few years the Federal Tax Service will start to more actively audit the operations of multinational companies doing business in Russia.

In addition, local Russian tax authority teams are also reviewing the prices in intra-group transactions. They may assess additional taxes if they see taxpayers receiving unjustified tax benefits. In practice, the likelihood of being questioned by the local tax authorities about intra-group pricing is quite high.

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CFC rules in Russia

A controlled foreign company (CFC) is a foreign organisation (not a tax resident of the Russian Federation) or foreign structure that does not involve the establishment of a formal legal entity (fund, partnership, trust, or other form of collective investment vehicle and/or trust management) that is controlled by a Russian tax resident company or individual.

The CFC rules are applied to:
- FLEs in which a tax resident of Russia effectively owns at least 25% of the capital, and
- FLEs in which a tax resident of Russia effectively owns at least 10% of the capital, if Russian tax residents cumulatively own at least 50% of the capital.

CFC rules provide for a number of exemptions from CFC taxation. If an exemption applies, then the profits of that particular CFC are not subject to tax, though the controlling person/entity is not relieved from its reporting obligations. These exemptions inter alia include the following:
- Foreign companies treated as an active foreign company, active holding/or active sub-holding company; or
- Foreign companies for which the effective tax rate at the end of the year for which the financial statements are prepared is not less than 75% of the weighted-average CIT rate in Russia. This exemption only applies to CFCs resident in treaty-protected jurisdictions, provided that these jurisdictions exchange tax information with Russia (as determined by the Ministry of Finance).

The undistributed profits of CFCs are subject to:
- Corporate profits tax at 20% if the controlling person/entity is a Russian-resident company, or
- Personal income tax at 13% if the controlling person/entity is a Russian-resident individual.

If the annual profit of a CFC is less than the “de minimis” threshold, a CFC’s undistributed profit will not be taxable in Russia (the threshold is RUB30 million per company in 2016).

Taxes on CFC profits, such as foreign corporate income tax and withholding tax levied at source, are creditable against the Russian CFC tax.

New residency rules
From 1 January 2015, residency rules provide that a FLE can be recognised as a tax resident in Russia if it is managed in Russia.

Russia will be acknowledged as the place of management if at least one of the following is true for the FLE:
- The company’s executive body regularly takes decisions or carries out other activities in Russia on a scale significantly greater than in any other jurisdiction;
- Senior management personnel perform steering management tasks on the company mainly in Russia.

Quantitative criterion of number of board of directors meetings was excluded.

While not specifically defined, the term “steering management” is understood to include taking decisions or other actions with respect to the company’s day-to-day operations.

The additional criteria should be applied if one of the abovementioned main criterion is simultaneously fulfilled.
both in Russia and a foreign country, in particular if a FLE should be considered a Russian tax resident if one of the following conditions is met:

(1) the company’s financial accounting or management accounting is performed in Russia;
(2) the company’s documents are generated and processed in Russia;
(3) the HR function at an operational level is performed in Russia.

However, the management rule cannot see an FLE recognised as a tax resident of Russia if it carries out its business activities at its foreign place of residence using qualified personnel and its assets are outside Russia (that is, providing the business is resident in a treaty-protected jurisdiction). Some exceptions apply to FLEs engaged in specific listed activities.

FLEs which shift their tax residency to Russia become subject to unlimited tax liabilities in Russia, i.e. their worldwide income becomes subject to Russian corporate profits tax.

Beneficial ownership requirement

A domestic beneficial ownership requirement is a condition controlling whether reduced withholding tax rates can be applied in accordance with the treaties signed with Russia.

The Tax Code defines a beneficial owner as:

- a person who has the right to independently use and/or dispose of the income by virtue of:
  - participation (direct or indirect) in the company,
  - control over the company, or
  - other circumstances,
- a person in whose interest another person has the power to dispose of the income.

Further, the Tax Code provides a list of persons who could not be considered beneficial owners of income. This relates to persons who:

- possess limited powers in relation to the disposal of that income, or
- carry out merely intermediary functions in relation to that income in the interest of another person, without performing any other functions and without assuming any risks.

The payer of income, who acts as a withholding tax agent, has the right to request documentary proof of beneficial ownership from an income recipient. If the latter is not able to provide such proof, the tax agent may withhold tax at the full domestic rate.

In addition, the Tax Code provides for a so-called “look-through” approach, i.e. the right to apply (under certain circumstances) a reduced withholding tax rate under the treaty with the beneficial owner’s jurisdiction, even if another person is an immediate recipient of income.
Many companies this year have fallen within the scope of new regulations on the disposal of consumer products and packaging waste. This is a direct result of amendments to Federal Law No. 89-FZ of 24 June 1998 “On the Production and Consumption of Waste” (as amended on 29 December 2015) (the “Recycling Law”), which extend the definition of waste disposal and impose obligations to recycle or pay an environmental duty.

Usually, the Recycling Law is interpreted to mean that ‘waste disposal’ is the destruction of products by land burial or incineration (for example, when a product’s shelf life expires, or when it degrades and ceases to be marketable).

The amended Recycling Law provides a new definition, stating that waste disposal is the reprocessing of waste for recycling purposes.

Please refer to a List, approved by the Russian Government (Decree of the RF Government No. 1886-r dated 24 September 2015 “On the List of Finished Goods, including Packaging, to be Recycled at the End of Their Usable Life”), for more details on the list of finished goods regulated by the Recycling Law. After reviewing this List, it becomes clear that companies in almost every sector shall have the obligation to carry out recycling procedures or pay an environmental duty.

The List includes automobile manufacturers (obliged to dispose of waste tyres and solid rubber products), pharmaceutical companies, enterprises in the consumer, retail and light industry sectors, electronics manufacturers, and many more.

Given that the packaging disposal burden lies with producers and importers, the Recycling Law affects almost every Russian company.

The Recycling Law covers both producers and importers, and stipulates that they have to take responsibility for the annual recycling of waste from the use of certain goods (and their packaging) to meet the established recycling targets, or have an obligation to pay an environmental duty calculated on the basis of specific rates if the recycling targets are not met or if, following a decision by the company, no attempt to recycle the waste was made. These amendments, in turn, have introduced new reporting requirements.
Despite the fact that the Recycling Law is already in force and the obligation to submit reports is effective from 1 April 2016, the legislative act has not been finalised yet and requires a number of explanations and clarifications. Based on this in 2016, producers and importers bear no responsibility for failures to submit reports. Consequences exist for 2017 and thereafter.

These primarily relate to the challenges companies face when preparing their regular accounts. Among other things, an amendment has introduced a requirement to specify the name and amount of goods and packaging used when importing goods or introducing them to the market with an accuracy of one kilogram. In most cases, neither customs declarations nor accounting reports provide this kind of information.

In addition to this, there are other significant issues that have still not been resolved by legislators.

Despite the fact that no penalties have been stipulated for failures to comply with waste disposal requirements in 2016, the current year will still be important for both producers and importers. If the lack of reports or incorrect data entail no liabilities this year, this will fundamentally change in 2017 and thereafter.

Most companies are wrong in believing that they fall within the scope of the Recycling Law by identifying waste disposal as the traditional destruction of products, and, due to their goods being absent from the List, disregarding the packaging in which the goods are imported or introduced to the market.

In our opinion, producers and importers should check to see if their products and packaging are on the List, as well as analyse how many of their products and imports already fall under its scope. If they understand that their products and packaging come under the List’s scope, they should not only develop and set up inventory accounting procedures, but also choose the most convenient and beneficial option for them: whether to take responsibility for the entire recycling procedure, establish associations (unions) for professional disposal, or pay the environmental duty.
Personal Income Tax

Personal Income Tax (PIT) in Russia generally depends on the taxpayer’s tax residency status. An individual is considered a Russian tax resident if he/she is physically present in Russia for a period of 183 days or more during 12 consecutive months. Short-term travel (less than 6 months) outside Russia’s borders for medical treatment or educational activities does not qualify as an interruption to the individual’s presence in Russia.

The day of arrival and day of departure should be included as days in Russia when calculating the number of days a person has been present in Russia when determining an individual’s tax residency status.

If a company makes a salary payment locally in Russia, the company should determine the individual’s tax residency status on each date of payment in order to apply the appropriate withholding tax rate. Residency is determined on the basis of a 183-day period within the 12-month period immediately preceding the date the income was paid.

Consequently, the tax withheld may not be the amount of tax ultimately due. Final tax liabilities are determined based on the individual’s tax residency status for the reporting calendar year. This status is determined based on the ‘183-day presence test’ in the reporting calendar year.

Tax residents are subject to PIT on all their income, irrespective of the country in which it arises, whereas non-residents are subject to PIT only on income sourced in Russia.

Tax base

Taxable income includes income received in cash, in kind, and in the form of deemed income. Income in kind is assessed based on the market price of the goods received or services provided.

Deemed income generally results when:

– Interest payments are made on loans from organisations and sole proprietors when the payments are benchmarked at a rate of 2/3rds of the refinancing rate of the Central Bank of Russia on loans in Russian roubles, or the interest is up to 9% per annum on loans in other currencies. The use of credit cards issued by non-Russian banks is also likely to trigger deemed taxable income for the cardholder.

– Favourable prices (non-market rates) are paid by an individual on goods or services purchased from related parties.

– Securities and financial instruments are acquired at a price below the market level.

Some exceptions from the above rule apply.

Tax rates

A 13% PIT rate applies generally to all types of income received by a tax resident except for certain types of non-employment income (e.g. deemed income resulting from the interest derived from the use of loans is taxable at the rate of 35%);

A 30% PIT rate applies generally to all types of income received by a tax non-
Doing Business in Russia

resident, except for the following rates which specifically apply to particular types of income:

- 15% applies to dividend income from Russian companies received by a tax non-resident;
- 13% applies to the Russian employment income of tax non-residents who are foreign employees with the status of HOS, and to certain other specific categories of taxpayers.

Social deductions are also available on:

- Expenses incurred by the taxpayer on the education of him/herself and each of his/her children;
- Expenses for medical treatment and medicines for the taxpayer and his/her spouse, parents, children;
- Contributions to voluntary medical insurance for the taxpayer and his/her spouse, parents and children;
- Contributions to a private pension fund for the benefit of the taxpayer, his/her spouse, parents and any disabled children;
- Additional insurance contributions to the cumulative part of state pensions.

The above deductions cannot exceed RUB120,000 in one calendar year per taxpayer (except expenses for certain expensive medical treatments on a specific list approved by the Russian Government, deductible by the actual expense amounts; and except for expenses for the education of the taxpayer’s children, deductible within a limit of RUB50,000 per child).

Property-related tax deductions

Property-related tax deductions are available on expenses related to the purchase of (construction of) dwellings and on land plots for the construction of a dwelling (or along with a dwelling place) in Russia (up to RUB2,000,000). Interest on the loans used to pay for the above mentioned purchases / constructions may also be claimed as a deduction (up to RUB3 million).

On the sale of residential property and land plots that have been owned for less than three or five years (depending on the property acquisition details) or more is tax-exempt, provided that the seller is Russian tax resident in the year of sale.

Professional tax deductions

Professional tax deductions can be granted to individuals conducting registered entrepreneurial activity. These deductions apply to documented, business-related expenses. If business related expenses are undocumented, a sole proprietor can apply professional tax deductions of up to 20% of the income derived from business activities.

Professional deductions can also be granted to individuals who receive income under a civil-law service or work agreement. The deductions are based on documented expenditures related to the performance of services under these agreements.

Individuals who receive author’s fees or fees for the creation, execution or other use of specific intellectual property can apply for professional tax deductions that amount to their documented expenses or for a fixed amount if the documents supporting the expenses are unavailable (from 20% to 40%, depending on the type of intellectual property).

Individuals who provide services or perform work under relevant civil-law contracts may claim an expenses deduction (supported by documentation) directly related to their provision of services / performance of work.

Investment tax deductions

Certain deductions are available with regard to investments/financial results from the sale of specific types of securities via individual investment accounts opened in Russia.

Generally, tax residents pay PIT on the majority of income types at a flat rate of 13%.
**Filing and payment**

Generally, individual entrepreneurs, Russian legal entities, representative offices and branches of foreign legal entities registered in Russia and which make payments to individuals, are all considered as tax agents. They are required to withhold PIT from the compensation payable to individuals and remit the associated PIT to the Russian financial authorities.

If PIT was not withheld by a tax agent, the latter must notify the tax authorities and the individuals who received the income that was not subjected to tax withholding. The onus then falls on the individuals to pay the outstanding PIT based on a tax assessment issued by the tax authorities (by 1 December of the year following the reporting year). In other cases where an individual received income taxable in Russia which was not subject to withholding, the individual must file a PIT declaration and pay the outstanding tax after self-assessment. Generally, the PIT declaration should be filed no later than the 30th April of the year following the reporting year the item of taxable income was received, and the tax should be paid by 15th July of that year. Specific rules may apply to non-Russian citizens who depart from Russia.

**Tax refund**

A PIT declaration should also be required if individuals want to claim certain tax deductions or refund the PIT which was withheld by the tax agent (under certain circumstances).

**Other taxes payable by individuals**

**Personal property tax**

Houses, apartments, cottages, garages and other buildings, along with premises and constructions owned by individuals are all subject to personal property tax.

Tax rates differ – from 0.1% to 2% – depending on the type and value of the property. The rates may be adjusted by regional laws.

Certain categories of taxpayers are exempt from personal property tax (e.g. pensioners).

Individual property tax is assessed by the tax authorities annually and should be paid by taxpayers based on a tax assessment issued by the tax authorities not later than the 1 October of the subsequent calendar year.

**Individuals who possess immovable property are subject to personal property tax.**

**Land tax**

Individuals owning land plots are subject to land tax.

The tax is assessed by the tax authorities on the cadastral value of the land plot.

The tax rate depends on the type of land plot and regional laws; it should not exceed 1.5% of the cadastral value of the land plot.

**Individuals who possess land plots are subject to land tax.**

**Transport tax**

Individuals owning transport vehicles are subject to transport tax.

Taxable vehicles include automobiles, motorcycles, scooters, buses / coaches, airplanes, helicopters, motor vessels, yachts, sailing boats, ships, snowmobiles, etc.

Transport tax is determined based on the vehicle’s engine power, seating capacity and the respective tax rates established by regional laws.

**Individuals possessing transport vehicles are subject to transport tax.**
Financial Reporting

Russian Accounting Principles

Russian accounting is regulated by a system of legal acts consisting of four different levels.

The first level consists of laws regulating the way accounting is established and maintained by companies, including:

- The Federal Law on Accounting, which contains basic accounting and reporting requirements.
- The Civil Code of the Russian Federation, which consolidates many accounting issues. The Civil Code of the Russian Federation defines a legal entity as having its own balance sheet, establishes the requirement that annual financial statements are approved annually, and provides definitions of subsidiary and associated companies, as well as determining the procedures for reorganising and liquidating different kinds of legal entities.
- The Federal Laws On Joint Stock Companies and On Limited Liability Companies, which establish information disclosure and presentation requirements, stipulate that data contained in the annual financial statements must be confirmed by the internal auditor, and determines the procedure by which the annual financial statements are approved as well as the situations in which an external audit opinion is required.

The second level consists of accounting regulations (standards), which regulate accounting policies, the compilation and presentation of financial statements, and accounting for fixed and intangible assets, inventory, loans, income, expenses, financial investments, profits tax, etc. Many of these regulations are in essence close to International Financial Reporting Standards (IFRS). Bringing the national accounting system into line with IFRS has been part of the accounting reforms that began in 1998.

It is intended that new accounting regulations shall be issued in the future. The topics covered will be in accordance with the current list of IFRS standards. For instance, Russian accounting regulations currently have no standards on the leasing or impairment of assets. Additionally, the existing accounting regulations are revised on a regular basis to enhance their compliance with IFRS.

The third level comprises methodological instructions on accounting, including recommendations in which specific procedures for applying accounting principles and regulations are set out for particular types of activities.

One of the most important documents at this level is the Chart of Accounts and related instructions.

The fourth level includes documents issued by the company itself, which determine its accounting policies in all systematic, technical and organisational aspects and are approved by an internal decision taken by the company on its accounting policies. If there are any specific accounting methods that are not specified in the relevant accounting...
standards, companies have the right to develop them independently and to adopt them by including them in the decision they have taken regarding their accounting policies.

Branches and representative offices of foreign companies located in the Russian Federation are allowed to maintain their accounting on the basis of regulations established in the country in which the foreign company resides, unless these regulations contradict IFRS. However, branches and Representative Offices are still required to submit annual activity reports to the tax authorities along with their tax returns.

The key accounting principles in the Russian Federation are:

- **Separate entity principle:** in accordance with which the assets and liabilities of the company are separated from the assets and liabilities of the owner or the assets provided to the entity by other persons.

- **Going concern principle:** in accordance with which it is assumed that the company will continue operating in the foreseeable future.

- **Principle of accounting policy consistency:** the accounting policy selected by the company is applied consistently from one reporting year to another, and a change in the accounting policy is only possible if there are changes in the legislation of the Russian Federation or in accounting regulations, or if new accounting methods are developed by the company, or there are significant changes in operating conditions.

- **The matching principle:** this states that business operations are recorded in the reporting period in which they occur, regardless of when receipts or payments related to these transactions are actually made.

- **Principle of timeliness and completeness in recording transactions:** the accountant should make records according to the timelines set and reflect all of the transactions made.

- **Prudence principle:** the accountant should record liabilities and expenses rather than assets and income and should not allow for any hidden reserves.

- **Substance-over-form principle:** transactions should be accounted for based on their economic substance and business circumstances rather than their legal form.

- **Principle of non-contradiction:** analytical accounting data should be identical to synthetic accounting data on the last calendar day of each month.

- **Rationality principle:** application of a rational accounting method based on the company’s size and business environment.

- **Materiality principle:** data on material assets, liabilities, income, expenses and transactions should be recorded separately if this information is essential for evaluation of the entity’s financial position or financial results.

Companies use a working chart of accounts developed on the basis of the centrally (government) established Chart of Accounts.

All business operations performed by companies should be supported by relevant source documents in Russian. These documents are the primary accounting documents underlying the financial statements. Source documents prepared in other languages should be translated into Russian on a line-by-line basis.

**Statutory reporting requirements**

A company’s financial statements must reflect the company’s economic and financial position fully and reliably along with any change in this position and the financial results of the company’s activities.

In accordance with Russian legislation, commercial legal entities prepare annual financial statements for each financial year. A financial year is the calendar year (1 January – 31 December) with exceptions for when a legal entity is registered, reorganised or liquidated. If required by law, a commercial legal entity is required to prepare and submit interim financial statements for periods that are shorter than a financial year. Annual financial statements, except for when directed otherwise by legislation, include the following:

- The balance sheet;
- Financial result reports;
- Appendices to the above two reports containing additional information on changes in equity, cash flows, movements of borrowed funds, changes in accounts receivable and payable, notes, etc;
- Tax returns and audit opinions are not included in the financial statements.

The information in the financial statement for the reporting year and the previous two years must be presented in comparable formats. A company’s financial statements must include the results of the activities of the company’s branches, representative offices and other structural subdivisions.

If the company has subsidiaries or associated companies, consolidated financial statements must be prepared for them in addition to the company’s own financial statements. The consolidated financial statements must include figures from the reports of companies located both in the Russian Federation and abroad.

Companies submit annual financial statements to:

- Shareholders;
- Statistics authorities;
- Tax authorities;
- Other interested users (if the shareholders so decide).

Currently, according to the Federal Law “On Consolidated Financial Reporting”, only credit, insurance and listed Russian companies are obliged to consolidate financial reporting in accordance with the version of IFRS which was officially adopted and published by the Ministry of Finance of the Russian Federation.

Considering the fact that a typical company’s financial statements are prepared in accordance with Russian
statutory legislation, and that this differs from IFRS, in order to present the financial statements to foreign owners or investors it is normally a requirement that the statutory financial statements are prepared with an IFRS reconciliation included. Presenting financial statements in accordance with IFRS and, consequently, increasing their transparency, will facilitate the inflow of foreign investment into the economy’s production sector and increase the possibility of more companies obtaining credit.

Audit requirements

The Federal Law on Audit requires that the following Russian entities have mandatory annual audits:

- Open joint-stock companies;
- Listed companies;
- Companies participating professionally in the stock market;
- Credit or insurance companies, clearing agencies, mutual insurance associations, currency, commodity and stock exchanges, incorporated investment funds, non-budgetary state funds, management companies of incorporated investment funds, and unit investment funds or non-state pension funds (apart from non-budgetary state funds);
- Companies (except for agricultural cooperatives and unions of such cooperatives) whose annual earnings from the sale of goods (or the performance of work or provision of services) for the year preceding the financial year exceed RUB400,000,000 (USD6,528,500), or for which the value of assets on the balance sheet at the end of the year preceding the financial year exceeds RUB60,000,000 (USD979,300);
- Companies presenting and (or) publishing consolidated financial reports;
- Companies for which audits are mandatory according to other Federal laws.

A mandatory audit must be carried out every financial year.

Audits of listed companies, credit and insurance companies, non-state pension funds, companies in which the state owns more than 25 percent, state corporations, state companies and consolidated financial reporting can only be carried out by professional audit organisations. Because audits are subject to self-regulation, to provide audit services in the Russian Federation a professional auditing firm should be a member of an appropriate self-regulating organisation.
## Chart of Withholding Tax Rates

<table>
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<th>Country</th>
<th>Dividends percent</th>
<th>Interest percent</th>
<th>Royalties percent</th>
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<td>10</td>
</tr>
<tr>
<td>Portugal</td>
<td>10; 15*</td>
<td>0; 10*</td>
<td>10</td>
</tr>
<tr>
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<tr>
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<td>0; 10*</td>
<td>0</td>
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<tr>
<td>Spain</td>
<td>5; 10; 15*</td>
<td>0; 5*</td>
<td>5</td>
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<tr>
<td>Sri Lanka</td>
<td>10; 15*</td>
<td>0; 10*</td>
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<td>Sweden</td>
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<tr>
<td>Switzerland</td>
<td>0; 5; 15*</td>
<td>0*</td>
<td>0</td>
</tr>
<tr>
<td>Syria</td>
<td>15</td>
<td>0</td>
<td>10*</td>
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<td>Tajikistan</td>
<td>5; 10*</td>
<td>0; 10*</td>
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<td>Thailand</td>
<td>15</td>
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<td>15</td>
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<tr>
<td>Turkey</td>
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<td>0; 10*</td>
<td>10</td>
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<td>5</td>
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<tr>
<td>UAE</td>
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<td>-/0*</td>
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<tr>
<td>Ukraine</td>
<td>5; 15*</td>
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<td>USA</td>
<td>5; 10*</td>
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<td>Uzbekistan</td>
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<tr>
<td>Venezuela</td>
<td>10; 15*</td>
<td>0; 5; 10*</td>
<td>10; 15*</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10; 15*</td>
<td>10</td>
<td>15</td>
</tr>
</tbody>
</table>
- **Algeria**: 5% on dividends — this rate applies if the recipient company (not a partnership) directly owns at least 25% of the capital in the Russian company; otherwise, 15%. 0% on interest applies to interest paid by the government or its local authorities or paid to the government, its local authorities or the central bank; otherwise, 15%.

- **Argentina**: 10% on dividends — this rate applies if the recipient directly owns at least 25% of the capital in the Russian company; otherwise, 15%. 0% on interest applies to interest paid to the government or the central bank; otherwise, 15%.

- **Armenia**: 5% on dividends — this rate applies if the recipient company directly owns at least 25% of the capital in the Russian company; otherwise, 10%. 0% on interest applies to interest paid to the government or the central bank; otherwise, 10%.

- **Australia**: 5% on dividends — this rate applies to dividends paid out of profits that carry normal tax rates if the dividends are paid to an Australian company (not a partnership) that directly holds at least 10% of the capital of the Russian company. In addition, the Australian company’s holding must be worth at least AUD700,000, and the dividends must be exempt from tax in Australia; in all other cases, 15%.

- **Austria**: 5% on dividends — this rate applies if the recipient company (not a partnership) directly owns at least 10% of the capital in the Russian company, and the holding value exceeds USD100,000; otherwise, 15%.

- **Azerbaijan**: 0% on interest applies to interest paid to the government; otherwise, 10%.

- **Belarus**: 0% on interest applies to interest paid to the government or the national bank; otherwise, 10%.

- **Belgium**: 0% on interest applies to interest paid to the government, its local authorities, public bodies and to banks and other financial institutions; otherwise, 10%.

  Belgium, revised version: 5% on dividends — this rate applies if the recipient company directly owns at least 10% of the capital in the Russian company for at least 12 consecutive months and the holding value exceeds EUR80,000 or its equivalent in roubles; otherwise, 15.0% on interest applies to interest paid to the government, its local authorities, public bodies, pension funds or under a loan granted by the enterprise of one contracting state to the enterprise of the other contracting state; otherwise, 10%.

- **Botswana**: 5% on dividends — this rate applies if the recipient directly owns at least 25% of the capital in the Russian company; otherwise, 10%. 0% on interest applies to interest paid to the government, its local authorities, political subdivision or the central bank; otherwise, 10%.

- **Brazil**: 10% on dividends — this rate applies if the recipient directly owns at least 20% of the capital in the Russian company; otherwise, 15%. 0% on interest applies to interest paid to the government or public bodies; otherwise, 15%.

- **Bulgaria**: 0% on interest applies to interest paid to the government or the Bank of Bulgaria; otherwise, 15%.

- **Canada**: 10% on dividends — this rate applies if the recipient company owns at least 10% of the capital or voting shares in the Russian company; otherwise, 15%. 0% on interest applies to interest paid to the central bank; otherwise, 10%. 0% on royalties — the rate applies to computer software, patents and know-how; otherwise, 10%.

- **Chile**: 5% on dividends — this rate applies if the recipient directly owns at least 25% of the capital in the Russian company; otherwise, 10%. 5% on royalties — the rate applies to equipment rentals; otherwise, 10%.

- **China**: 0% on interest applies to interest paid to public bodies, the central bank, the government or its local authorities; otherwise, 10%.

  China, revised version: 5% on dividends — this rate applies if the recipient company directly owns at least 25% of the capital in the Russian company and the holding value exceeds EUR80,000 or its equivalent in any other currency; otherwise, 10.0% on interest applies to interest paid to the government, its local authorities, public bodies, the Central Bank and other public financial institutions; otherwise, 5%.

- **Croatia**: 5% on dividends — this rate applies if the recipient company owns at least 25% of the capital of the Russian company, and the holding value is at least USD100,000 or its equivalent in another currency; otherwise, 10%.

- **Cyprus**: 5% on dividends — this rate applies if the holding value is at least EUR100,000; otherwise, 10%.

- **Cuba**: 5% on dividends — this rate applies if the recipient company (not a partnership) directly owns at least 25% of the capital in the Russian company; otherwise, 15%. 0% on interest applies to interest paid to the government, its local authorities or public bodies; otherwise, 10%.

- **Egypt**: 0% on interest applies to interest paid to the government, its local authorities, public bodies or the national banks; otherwise, 15%.

- **Finland**: 5% on dividends — this rate applies if the recipient company (other than a partnership) directly owns at least 30% of the capital in the Russian company, and the holding value is at least USD100,000 or its equivalent in national currencies; otherwise, 12%.

- **France**: 5% on dividends — this rate applies if the French company (i) has directly invested at least FRF500,000
in the Russian company and (ii) is taxed in France but is exempt with respect to dividends (i.e. has a participation exemption). A 10% rate applies if only one of the requirements is fulfilled; otherwise, 15%.

- **Germany**: 5% on dividends — this rate applies if the German company owns at least 10% of the capital in the Russian company and the holding value is at least EUR80,000; otherwise, 15%.

- **Greece**: 5% on dividends — this rate applies if the recipient company (not a partnership) directly owns at least 25% of the capital in the Russian company; otherwise, 10%.

- **Iceland**: 5% on dividends — this rate applies if the recipient company (not a partnership) owns at least 25% of the capital in the Russian company and the value of the capital investment is at least USD100,000; otherwise, 15%.

- **India**: a 0% tax rate on interest applies to interest paid to the government, its local authorities, public bodies or the central bank; otherwise, 10%.

- **Indonesia**: a 0% tax rate on interest applies to interest paid to the government, its local authorities, political subdivisions, the central bank; otherwise, 15%.

- **Iran**: 5% on dividends — this rate applies if the recipient company (not a partnership) directly owns at least 25% of the capital in the Russian company; otherwise, 10%. 0% on interest applies to interest paid to the contracting state, its local authorities, public bodies or the national banks; otherwise, 7.5%.

- **Israel**: 0% on interest applies to interest paid to the government, its local authorities and the central bank; otherwise, 10%.

- **Italy**: 5% on dividends — this rate applies if the recipient company directly owns at least 10% of the capital in the Russian company and the holding value is at least USD100,000; otherwise, 10%.

- **Japan**: a 0% tax rate on interest applies to interest paid to the government, its local authorities, public bodies or the central bank; otherwise, 10%. 0% on royalties — this rate applies to copyright royalties; otherwise, 10%.

- **Kazakhstan**: a 0% tax rate on interest applies to interest paid to the contracting state, local authorities or public bodies; otherwise, 10%.

- **South Korea (Rep.)**: 5% on dividends — this rate applies if the recipient company owns directly at least 30% of the capital in the Russian company and the value of the holding is at least USD100,000; otherwise, 10%.

- **Kuwait**: 0% on dividends — this rate applies if dividends are distributed to the government, local authorities, public entities, the central bank, and public financial institutions; otherwise, 5%.

- **Kyrgyzstan**: a 0% tax rate on interest applies to interest paid to the government, its local authorities, public bodies and the central bank; otherwise, 10%.

- **Latvia**: 5% on dividends — this rate applies if the recipient company (other than a partnership) owns directly at least 25% of the capital in the Russian company and the capital invested exceeds USD75,000; otherwise, 10%. 5% on interest applies to the interest on loans of any kind granted by a bank or other financial institution of one of the contracting states to a bank or other financial institution of the other contracting state; otherwise, 10%.

- **Lebanon**: 0% on interest applies to interest paid to the government, its local authorities, and public bodies; otherwise, 5%.

- **Lithuania**: 5% on dividends — this rate applies if the recipient company (other than a partnership) directly owns at least 25% of the capital in the Russian company and the value of the capital investment is at least USD100,000; otherwise, 10%. 0% on interest applies to interest paid to the government, its local authorities, public bodies, and the central bank; otherwise, 10%. 5% on royalties — this rate applies to equipment rentals; otherwise, 10%.

- **Luxembourg**: 5% on dividends — this lower rate applies if the Luxembourg recipient directly owns at least 10% of the capital in the Russian company and the holding value is at least EUR80,000 or its equivalent in national currency; otherwise, 15%.

- **Malaysia**: 15% on dividends — this rate applies to profits of joint ventures; otherwise, the domestic rate applies; there is no reduction under the treaty. 0% on interest applies to interest paid to the government and the central bank; otherwise, 15%. 10% on royalties — this rate applies to authors’ rights and equipment rentals; 15% on royalties — this rate applies to films and broadcasting programs and copyrights on items of literature or art.

- **Mali**: 10% on dividends — this rate applies if the value of the holding is at least FRF1 million; otherwise, 15%. 0% on interest applies to interest paid by the government or its local authorities, paid to the government, its local authorities or the central bank; otherwise, 15%.

- **Malta**: 5% on dividends — this rate applies if the recipient company owns at least 25% of the capital in the Russian company and the total amount of investments into capital is at least EUR100,000; otherwise, 10%. The zero rate applies to dividends paid to a pension fund, if such dividends are derived from investments made using the assets of that pension fund.

- **Mexico**: 0% on interest — this lower rate applies to interest paid to the government, the central bank and public bodies, and interest paid in respect of a loan for a period of at least three years granted, guaranteed or insured by specified banks; in other cases, 10%.
Mongolia: 0% on interest — this lower rate applies to interest paid to the government or the central bank; in other cases, 10%. Taxation of royalties — the domestic rate applies; there is no reduction under the treaty.

Montenegro: 5% on dividends — this rate applies if the recipient company (other than a partnership) directly owns at least 25% of the capital in the Russian company and the value of the capital investment is at least USD100,000; otherwise, 15%.

Morocco: 5% on dividends — this rate applies if the value of the holding of the recipient company is at least USD500,000; otherwise, 10%. 0% on interest — this lower rate applies to interest paid to the government; otherwise, 10%

Namibia: 5% on dividends — this rate applies if the recipient company (other than a partnership) directly owns at least 25% of the capital in the Russian company and the value of the capital investment is at least USD100,000; otherwise, 10%. 0% on interest — this lower rate applies to interest paid to the government, its local authorities or public bodies; otherwise, 10%.

Netherlands: 5% on dividends — this rate applies if a Dutch company (other than a partnership) directly owns at least 25% of the capital in a Russian company and has invested in it at least EUR75,000 or its equivalent in national currency; otherwise, 15%.

Norway: 0% on interest if paid to the government, local authorities, Central Bank or other agreed financial institutions; otherwise 10%.

Philippines: 0% on interest — this lower rate applies to interest paid to the government, its local authorities or public bodies; otherwise, 15%.

Portugal: 10% on dividends — this rate applies if the Portuguese company has directly owned at least 25% of the capital in the Russian company for an uninterrupted period of at least 2 years prior to the payment; otherwise, 15%. A 0% tax rate on interest applies to interest paid to the government, its local authorities or public bodies; otherwise, 10%.

Qatar: 0% on interest — this lower rate applies to interest paid to the government, its local authorities or public bodies; otherwise, 5%.

Romania: 0% on interest — this lower rate applies to interest paid to the government, the national bank, foreign trading bank, or Eximbank; otherwise, 15%.

Saudi Arabia: 0% on dividends — this lower rate applies to dividends distributed to the government, its local authorities, public bodies, the central bank; otherwise, 5%. 0% on interest — this lower rate applies to interest paid by the government, its local authorities or paid to the government, its local authorities, public bodies; otherwise, 5%.

Serbia: 5% on dividends — this rate applies if the recipient company (other than a partnership) directly owns at least 25% of the capital in the Russian company and the value of
the capital investment is at least USD100,000; otherwise, 15%.

- **Singapore**: 5% on dividends — this rate applies if the recipient of the dividends is the government of the other contracting state or company which directly owns at least 15% of the share capital in the company paying dividends and has invested in this company at least USD100,000 or its equivalent in another currency; otherwise, 10%. A 0% tax rate on interest applies to interest paid to the government of the other contracting state; otherwise, 75%.

- **South Africa**: 10% on dividends — this rate applies if the recipient company owns at least 30% of the capital in the Russian company and has directly invested in this company at least USD100,000; otherwise, 15%. A 0% tax rate on interest applies to interest paid by public bodies; otherwise, 10%.

- **Spain**: 5% on dividends — this 5% rate applies if (i) the Spanish company has invested at least EUR100,000 in the Russian company and (ii) the dividends are exempt in Spain. A 10% rate applies if only one of the conditions is met; otherwise, 15%. 0% on interest — this lower rate applies to long-term loans (minimum 7 years) granted by credit institutions residing in a contracting state; otherwise, 5%.

- **Sri Lanka**: 10% on dividends — this rate applies if the recipient company (other than a partnership) directly owns at least 25% of the capital in the Russian company; otherwise, 15%. 0% on interest — this lower rate applies to interest paid to the government, its local authorities, public bodies, the central bank; otherwise, 10%.

- **Sweden**: 5% on dividends — this rate applies if a Swedish company (other than a partnership) owns 100% of the capital in a Russian company (or in the case of a joint venture, at least 30% of the capital in the joint venture) and foreign capital invested exceeds USD100,000 or its equivalent in national currencies; otherwise, 15%.

- **Switzerland**: 0% on dividends — this rate applies if dividends distributed to a pension fund (or similar institution), the government, any political subdivision, local authority or the central bank; a 5% rate on dividends applies if the Swiss company (other than a partnership) directly owns at least 20% of the capital in the Russian company and the holding value exceeds CHF200,000 or its equivalent in another currency; otherwise, 15%.

- **Syria**: 0% on interest — this lower rate applies to interest paid to the government, its local authorities, and public bodies; otherwise, 10%. 4.5% on royalties — this rate applies to films and broadcasting programs, and to recordings for radio/TV broadcasting; 13.5% on royalties — this rate applies to copyrights on items of literature, art or science; 18% — this rate applies to patents, trade mark design or models, plans, secret formulae/processes, any computer software programs, or for information concerning industrial, commercial or scientific experience.

- **Tajikistan**: 5% on dividends — this rate applies if the recipient company directly owns at least 25% of the capital in a Russian company; otherwise, 10%. A 0% tax rate on interest applies to interest paid to the government, its local authorities, public bodies or the central bank; otherwise, 10%.

- **Thailand**: A 0% tax rate on interest applies to interest paid to the government, public bodies, the central bank, the Export-Import Bank of Thailand; a 10% tax rate on interest applies to interest paid to financial institutions. The domestic rate applies in other cases; there is no general reduction under the treaty.

- **Turkey**: A 0% tax rate on interest applies to interest paid to the government or the central bank, or to the Turkish ExImbank; otherwise, 10%.

- **UAE**: 0% on dividends — this rate applies only if the recipient is a financial or investment institution. A 0% tax rate on interest — this rate applies only if the recipient is a financial or investment institution. The treaty does not cover royalties.

- **UK**: 10% on dividends — applies if dividends in the hands of the recipient company are subject to tax.

- **Ukraine**: 5% on dividends — this rate applies if the holding value is at least USD50,000; otherwise, 15%. A 0% tax rate on interest applies to interest paid to the government or the central bank; otherwise, 10%.

- **USA**: 5% on dividends — this rate applies if the recipient company owns at least 10% of the capital or voting power in the Russian company; otherwise, 10%.

- **Uzbekistan**: A 0% tax rate on interest applies to interest paid to the government, its local authorities or the central bank; otherwise, 10%.

- **Venezuela**: 10% on dividends — this rate applies if the recipient company (other than a partnership) directly owns at least 10% of the capital in the Russian company and the holding value is at least USD100,000; otherwise, 15%. A 0% tax rate on interest applies to interest paid by (or to) the government, its local authorities, the central bank or public bodies. If the interest is paid on a loan granted/guaranteed by a financial institution of a public character with the objective of promoting exports and development, then a 5% tax rate on interest applies to interest paid to the bank; otherwise, 10%. 10% on royalties — this rate applies to fees for technical services; otherwise, 15%.

- **Vietnam**: 10% on dividends — this rate applies if the recipient company has invested in the capital of the Russian company at least USD10 million; otherwise, 15%.
## Appendix 2.
### Fines for tax and customs violations

#### Fines based on the Tax Code

<table>
<thead>
<tr>
<th>Type of infringement</th>
<th>Fine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Late registration with the tax authorities</td>
<td>RUB10,000 (approximately USD154) if the registration deadlines are missed. If activities have been conducted without registration: 10% of the income received as a result of the activities, though not less than RUB40,000 (approximately USD615)*</td>
</tr>
<tr>
<td>Late submission of tax returns</td>
<td>5% of the amount due for each full or part month late, but not more than 30%, and not less than RUB1,000 (approximately USD15)*</td>
</tr>
<tr>
<td>Substantial violation of the rules governing the accounting of taxable income and expenses</td>
<td>RUB10,000 (approximately USD154)* If committed in several tax periods: RUB30,000 (approximately USD461)* If this has resulted in understatement of the tax base: then 20% of the amount of tax underpaid (if any), but not less than RUB40,000 (approximately USD615)*</td>
</tr>
<tr>
<td>Payment default or underpayment of taxes</td>
<td>20% of the tax underpaid as a result of the understatement of the taxable base or illegal actions. 40% of the tax underpaid if the tax underpayment was deliberate.</td>
</tr>
<tr>
<td>Non-withholding and/or default of payment of taxes by a tax agent</td>
<td>20% of the tax not withheld and not paid by the tax agent.</td>
</tr>
</tbody>
</table>

In the above cases, if a taxpayer corrects the errors themselves and pays the additional taxes and late payment interest payable, fines for erroneous bookkeeping and tax calculation should not be assessed. Normally late payment interest is charged at 1/300th of the refinancing rate of the Central Bank of the Russian Federation (11% as of 22 April 2016) for each day the tax payment was delayed. At present, the interest would be 0.0366% per day.

#### Fines based on the Administrative Code

<table>
<thead>
<tr>
<th>Type of infringement</th>
<th>Fine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Violation of the terms of registration with the tax authorities</td>
<td>RUB500–RUB1,000 (from USD8 to USD15) for missing registration deadlines; RUB2,000–RUB3,000 (from USD31 to USD46), if the activity is executed without registration.</td>
</tr>
<tr>
<td>Violation of the terms for submission of tax returns</td>
<td>RUB300–RUB500 (from USD5 to USD8), or a warning.</td>
</tr>
<tr>
<td>Non-submission of essential information for tax control purposes</td>
<td>For individuals: RUB100–RUB300 (from USD1.5 to USD5), For company executives: RUB300–RUB500 (from USD5 to USD8) for the non-submission of information, or submission of information that was incomplete for completion of the necessary tax control purposes.</td>
</tr>
</tbody>
</table>

* Actual exchange rate of the Central Bank of the Russian Federation as of 22 April 2015 (RUB61.2718 : USD1)
Fines based on the Criminal Code

The Criminal Code assigns responsibility for tax evasion by an individual or a legal entity.

According to the Russian Criminal Code, the officials of a company are subject to criminal fines for any underpayment of taxes by the company.

In particular, an especially large tax evasion can result in imprisonment terms of up to six years, prohibitions on the execution of specific activities for three years, and a fine of RUB200,000–RUB500,000 (from USD3,075 to USD7,689), or a fine of the amount of salary or other income the offender accrued over a period from one to three years.

Tax evasion is considered especially large if the amount of unpaid taxes over three years exceeds RUB10,000,000 (approximately USD154,786), and provided that the amount of unpaid taxes exceeds 20% of the total amount of taxes payable or exceeds RUB30,000,000 (approximately USD461,358).

An organisation or an individual is free of criminal liability if they have committed tax evasion for the first time and have paid to the budget, in full, all of their tax arrears and late payment interest, and all associated fines.

Fines for customs violations

<table>
<thead>
<tr>
<th>Type of violation</th>
<th>Fine</th>
</tr>
</thead>
<tbody>
<tr>
<td>Unlawful transportation of goods and/or vehicles across the customs border of the Customs Union</td>
<td>Fine of 100% to 300% of the value of the goods and/or vehicles, with the possibility of the goods / vehicles being seized.</td>
</tr>
<tr>
<td>Non-declaration of goods via the established procedures</td>
<td>Fine of 50% to 200% of the value of the goods, with the possibility of the goods being seized.</td>
</tr>
<tr>
<td>Incorrect declarations (e.g. provision of incorrect information regarding the name, description, classification code of goods, etc.), if the declaration led to underpayment of customs duties</td>
<td>Fine of 50% to 200% of the underpaid customs payments, with the possibility of the goods in question being seized.</td>
</tr>
<tr>
<td>Violations of the customs procedure</td>
<td>Fine of 100% to 200% of the value of goods, with the possibility of the goods being seized.</td>
</tr>
<tr>
<td>Illegal acquisition, use, storage, or transportation of goods</td>
<td>Fine of 50% to 200% of the value of goods, with the possibility of the goods being seized.</td>
</tr>
<tr>
<td>Evasion of customs duties</td>
<td>Fine of RUB100,000–RUB500,000 (from USD1,537 to USD7,689) or of 1–3 years’ salary, or confinement for a period of up to two years. If there has been an especially large customs duties evasion, a fine of RUB300,000–RUB500,000 (from USD4,777 to USD7,689) or of 2–3 years’ salary, or confinement of up to 5 years with a forfeit of the right to hold some posts or carry out some activities for a period of up to 3 years (or without any forfeit). The evasion of customs duties is considered large scale if the total sum of unpaid customs duties exceeds RUB1,000,000 (approximately USD15,378) and is considered exceptionally large scale if it exceeds RUB3,000,000 (approximately USD46,135).</td>
</tr>
</tbody>
</table>
Appendix 3.
KPMG’s Tax & Legal Department

Why KPMG
KPMG in Russia and the CIS employs more than 400 tax and legal consultants, including both local and foreign specialists. They bring with them vast experience not only in advisory services but in the business world as well.

With his extensive knowledge of tax advisory services in Russia, Mikhail Orlov, the Head of Tax & Legal in Russia and the CIS, also chairs the Tax and Customs Law Expert Council of the Russian State Duma and drafts legislation and works as a Public Tax Ombudsman under the Russian Federation’s Presidential Commissioner for the Rights of Business People.

As the head of a strong and cohesive team of professionals, Mikhail makes it the department’s priority to be not only our clients’ consultants who help solve urgent and sensitive issues quickly and efficiently, but also to be their trusted partners.

Our team
KPMG in Russia and the CIS employs more than 400 tax and legal consultants, including both local and foreign specialists. They bring with them vast experience not only in advisory services but in the business world as well.

Our approach to key issues:

– **Tax effectiveness.** To raise tax effectiveness, KPMG uses a combined approach, which includes improving cash flow, centralising funds, reallocation of the group’s management expenses, international planning, implementing appropriate ERP and tax management systems and fiscal management.

– **Transfer pricing.** We have completed more than 100 complex analyses of transfer prices for Russian and international clients across many different sectors.

– **International tax planning.** We will help you find the most effective way to build your international group structure. If you have subsidiaries located abroad, we will help you structure their activities.

– **Mergers and acquisitions.** Our team provides a full range of services from financial, legal and tax due diligence to restructuring advice and legal advice on transaction agreements.

– **Tax dispute resolution.** Our litigation group provides support during tax disputes, which includes representing clients’ interests in court, supporting clients during tax audits and throughout the pre-trial settlement process, preparing appeals to court decisions and appeals to tax authorities to take action or to remain uninvolved, and interpreting laws and practice for clients who are dealing with state authorities.

Corporate tax services
KPMG has teams dedicated to addressing all of the tax issues that corporations confront:

– Indirect tax;
– Transfer pricing;
– Effective management of tax liabilities (and its outsourcing);
– Development of problem-solving methods;
– Tax considerations during restructuring;
– International tax planning;
– Tax structuring for mergers and acquisitions, including support for the times after companies have been integrated.

Personnel services
We provide services for individuals and company staff. These services include helping to ensure personal compliance with tax legislation, implementing relevant company-wide programmes, pension planning and assisting with other personnel issues. Our specialists are also able to provide professional wealth management services. Personal services also tie into secondment structuring, both inbound and outbound, and related tax, legal and immigrations issues.

Legal advice
In addition to our standard corporate registration services, KPMG assists with mergers and acquisitions and provides legal support for companies and for individuals’ own projects, in terms of legal due diligence and the drafting of transaction documents.

Complex tax projects
The specialists at KPMG Tax & Legal have experience supporting, from a tax and legal perspective, IT projects and projects requiring financial and strategic consulting. We analyse financial risks, develop progressive approaches and adapt systems to conform with Russian and international legislation. Our experience includes introducing new software systems, overseeing commercial restructuring of holding companies, advising on money laundering, issues related to corporate intelligence and resolving commercial issues. Moreover, we actively participate in projects where we work to improve personnel management and support the improvement of operational efficiency within our clients’ companies.
## Glossary of terms

<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Term</th>
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<tbody>
<tr>
<td>AUD</td>
<td>Australian dollar</td>
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<tr>
<td>BRIC</td>
<td>Brazil, Russia, India And China</td>
</tr>
<tr>
<td>BVI</td>
<td>British Virgin Islands</td>
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<tr>
<td>CHF</td>
<td>Swiss franc</td>
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<tr>
<td>CIS</td>
<td>Commonwealth of Independent States</td>
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<tr>
<td>CJSC</td>
<td>Closed joint stock companies</td>
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<tr>
<td>ERP</td>
<td>Enterprise Resource Planning</td>
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<tr>
<td>EUR</td>
<td>Euro</td>
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<tr>
<td>FCZ</td>
<td>Free customs zone</td>
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<tr>
<td>FDI</td>
<td>Foreign direct investment</td>
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<tr>
<td>FLE</td>
<td>Foreign legal entity</td>
</tr>
<tr>
<td>FMS</td>
<td>Federal Migration Service</td>
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<tr>
<td>FRF</td>
<td>French Franc</td>
</tr>
<tr>
<td>FZ</td>
<td>Federal law (Federalniy Zakon)</td>
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<tr>
<td>GDP</td>
<td>Gross domestic product</td>
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<tr>
<td>HQS</td>
<td>Highly qualified specialist</td>
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<tr>
<td>ID</td>
<td>Identification</td>
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<tr>
<td>IFRS</td>
<td>International Financial Reporting Standards</td>
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<tr>
<td>IT</td>
<td>Information and technology</td>
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<tr>
<td>JSC</td>
<td>Joint stock companies</td>
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<tr>
<td>Kg</td>
<td>Kilogram</td>
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<tr>
<td>LLC</td>
<td>Limited liability companies</td>
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<tr>
<td>OJSC</td>
<td>Open joint stock companies</td>
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<tr>
<td>PE</td>
<td>Permanent establishment</td>
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<tr>
<td>PIT</td>
<td>Personal income tax</td>
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<tr>
<td>R&amp;D</td>
<td>Research and developmenti</td>
</tr>
<tr>
<td>RA</td>
<td>Rating agency</td>
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<tr>
<td>RLE</td>
<td>Russian Link Exchange</td>
</tr>
<tr>
<td>RO</td>
<td>Representative office</td>
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<tr>
<td>RUB</td>
<td>Russian ruble</td>
</tr>
<tr>
<td>RF</td>
<td>Russian Federation</td>
</tr>
<tr>
<td>SEZ</td>
<td>Special economic zone</td>
</tr>
<tr>
<td>UCT</td>
<td>Unified Customs Tariff</td>
</tr>
<tr>
<td>UK</td>
<td>United Kingdom</td>
</tr>
<tr>
<td>US</td>
<td>United States</td>
</tr>
<tr>
<td>USD</td>
<td>United States dollars</td>
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<tr>
<td>USSR</td>
<td>Union of Soviet Socialist Republics</td>
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<tr>
<td>VAT</td>
<td>Value added tax</td>
</tr>
<tr>
<td>YoY</td>
<td>Year-on-year</td>
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</table>
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