



MOORE

# DOING BUSINESS IN RUSSIA 2018





## INTRODUCTION

The Moore Europe *Doing Business In* series of guides have been prepared by Moore Global member firms in the relevant country in order to provide general information for persons contemplating doing business with or in the country concerned and/or individuals intending to live and work in that country temporarily or permanently.

*Doing Business in Russia* has been written for Moore Europe Ltd by OOO Moore. In addition to background facts about Russia, it includes relevant information on business operations and taxation matters. This Guide is intended to assist organisations that are considering establishing a business in Russia either as a separate entity or as a subsidiary of an existing foreign company. It will also be helpful to anyone planning to come to Russia to work and live there either on secondment or as a permanent life choice.

Unless otherwise noted, the information contained in this Guide is believed to be accurate as of 1 November 2018. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader's particular circumstances.

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# CONTENTS

<b>1. Russia at a glance</b>	<b>1</b>		
Geographical location and population	1	Exchange control	15
Language, religion and climate	1	Payments between non-residents	15
Politics and government	1	Payments between residents and non-residents	15
Currency, time zone, weights and measures	2	Investment incentives	15
General Economic Outlook	2	Guarantees and rights of foreign investors	15
Current economic position	3	Russian Direct Investment Fund (RDIF)	15
<b>2. Doing business</b>	<b>4</b>	Skolkovo Innovation Centre	15
Main forms of business organisation	4	Special Economic Zones	15
Formation and statutory requirements	4	<b>4. The accounting and audit environment</b>	<b>16</b>
Capital	4	Accounting regulations	16
'1-1-1' Restriction	5	RAS audit requirements	16
Contributions in kind	5	Application International Standards on Auditing (ISA) in Russia	16
Procedures for formation and registration	5	Common areas of departure from IFRS	17
Costs of accreditation and incorporation	6	Adoption of IFRS in Russia	17
Changing legal form	6	<b>5. Overview of the tax system</b>	<b>18</b>
Other commercial entities	6	Main taxes in Russia	18
Activities	6	Returns and records	18
Corporate governance	6	<b>6. Taxes on business</b>	<b>19</b>
Currency control and repatriation of profits	7	Corporate income tax	19
Labour relations and working conditions	7	Taxable entities	19
Employment contracts	7	Taxable period	19
Employee rights	8	Scope and extent	19
Termination of employment contracts	9	Company residence	19
Trade unions	9	Taxable income	19
Social security benefits	9	Capital gains	20
Pensions	9	Deductions	20
State pension support	10	Interest	20
Obligatory pension insurance	10	Tax depreciation	21
Non-state (additional) pension security	10	Dividends, interest and royalties	21
Health care	10	Dividends	21
Work permits, visas etc	10	Interest	22
Highly Qualified Specialists (HQSs)	11	Royalties	22
Work permits for non-HQSs	11	Group taxation	22
Sanctions for non-compliance with the immigration legislation	12	Losses	22
<b>3. Finance and investment</b>	<b>13</b>	Ordinary losses	22
Business regulation	13	Capital losses	23
Competition policy	13	Withholding taxes	23
Price controls	13	Dividends	23
Patents, trademarks and copyrights	13	Interest	23
Banking and local finance	14	Royalties	23
Commercial banks	14	Other	23
Insurance	14	Thin capitalisation	24
Securities	14	Transfer pricing	24
		Controlled foreign company (CFC) rules	25

Other significant anti-avoidance rules	26	Inheritance and gift tax	37
Beneficial ownership concept	26	Wealth tax	37
Tax incentives	26	<b>8. Other taxes</b>	<b>38</b>
Accelerated depreciation	26	Stamp duties/registration duties/transfer taxes	38
Investment credit	26	Land Tax	38
Special economic zones	27	Real estate transfer tax	38
Other	27	<b>9. Social security contributions</b>	<b>39</b>
Tax rate	27	Employee and employer contributions	39
Assessment procedure	28	Exemptions	39
Returns and payments	28	Contribution rates	39
Tax returns and assessment	28	Workplace accident insurance	40
Payment of tax	28	Returns and payment	40
Appeals	28	Self-employed contributions	40
Value added tax	28	Contributions of sole proprietors to compulsory pension insurance	40
Taxable entities	28	Contributions of sole proprietors to compulsory health insurance	40
Taxable activities	29	<b>10. Moore in Russia</b>	<b>41</b>
Exempt supplies	29	<b>Appendix 1: Double tax treaties</b>	<b>42</b>
Standard, reduced and zero rates	29	Comprehensive double taxation treaties	42
Registration	29	Double tax treaties: air transport and shipping	42
Returns and payment	29	Double taxation treaties: estates, gifts and inheritances	42
Net worth tax	29	Agreements for administrative assistance	43
Mineral extraction tax	30	Social security agreements	43
Capital duty	30	<b>Appendix 2: Moore around the world</b>	<b>44</b>
<b>7. Personal taxation</b>	<b>31</b>		
Income tax	31		
Territoriality and residence	31		
Persons liable	31		
Taxable income	31		
The family unit	32		
Taxation of employment income	32		
Benefits-in-kind	32		
Pension income	32		
Director's remuneration	32		
Salary/withholding tax	33		
Taxation of personal business income	33		
Taxation of investment income	33		
Capital gains	33		
Allowances, tax credits and deductions	34		
Allowances	34		
Deductions	34		
Tax rates	35		
Non-resident individuals	35		
Returns and payment	36		
Payment	36		
Appeals	37		

## 1. RUSSIA AT A GLANCE

### Geographical location and population

Russia, officially known as both Russia and the Russian Federation (*Rossiskaya Federatsiya*), is a country in northern Eurasia. From the northwest to the southeast, Russia shares borders with Norway, Finland, Estonia, Latvia, Lithuania, Poland, Belarus, Ukraine, Georgia, Azerbaijan, Kazakhstan, China, Mongolia, and North Korea. It also has maritime borders with Japan in the Sea of Okhotsk, and the US state of Alaska in the Bering Strait.

At over 17 million km<sup>2</sup>, Russia is the largest country in the world, covering more than one-eighth of the Earth's inhabited land area. Russia is also the ninth most populous nation, with 146.9 million inhabitants (as estimated by Rosstat on 1 January 2018 – 144.5 million if one excludes the disputed areas of Crimea and Sevastopol). It extends across the whole of northern Asia and 40% of Europe, spanning nine time zones and incorporating a wide range of environments and landforms. Russia has the world's largest reserves of mineral and energy resources and is one of the world's largest oil and natural-gas producers. Russia has the world's largest forest reserves and its lakes contain approximately one-quarter of the world's fresh water.

Moscow is the capital city of the Russian Federation. Other major cities include St Petersburg, Novosibirsk, Yekaterinburg and Nizhny Novgorod.

### Language, religion and climate

The official language is Russian, a member of the East Slavic branch of the Slavic family of languages, which uses the Cyrillic alphabet. The most common religion is Russian Orthodox Christianity. According to the Levada Centre, an independent opinion-research organisation, the proportion of those who consider themselves Orthodox has quadrupled – up to 77% – since the fall of Communism.

Around 80% of Russia's people are ethnic Russians. The next biggest ethnic groups are Tatars (3.8%), Ukrainians (1.5%), Bashkirs (1.15%), Chuvash (1.13%), Chechens (0.94%) and Armenians (0.8%). Ethnicity affects the mentality, which must be taken into account, in our opinion, when doing business in any country, not only in Russia.

The climate of Russia is determined by a number of factors. The enormous size of the country and the remoteness of many areas from the sea result in the dominance of a continental climate, which is prevalent in European and Asian Russia apart from the tundra and the extreme southeast. Mountains in the south obstruct the flow of warm air masses from the Indian Ocean and the plain of the west and north makes the country open to Arctic and Atlantic influences. The moderating influence of the Atlantic or Pacific oceans means that the most populous areas of the country in European Russia, in the south of Western Siberia and in the south of the Russian Far East, experience a humid continental climate. Most of Northern European Russia and Siberia has a subarctic climate, with extremely severe winters. The strip of land along the shore of the Arctic Ocean and the Arctic Islands has a polar climate. Winter precipitation in most parts of the country usually falls as snow.

### Politics and government

Russia is a federal semi-presidential republic, comprising 85 federal regions.

The current president is Vladimir Putin and the Prime Minister is Dmitry Medvedev, both of the United Russia party.

Russia has a bicameral parliament. The State Duma (*Gosudarstvennaya Duma*) is the lower house of the Federal Assembly of Russia, the Upper house is the Federation Council (*Sovyet federatsii*) of Russia. Its members are referred to as Deputies. The main political parties in the State Duma are United Russia, the Communist Party of the Russian Federation, the Just Russia and the Liberal Democratic Party of Russia. The latest elections to the State Duma of the Russian Federation were held in 2016. In 2008, the term of office of the president was extended to six years. This provision has been effective after the presidential elections of 2011. The next presidential elections will be held in 2024.

### Currency, time zone, weights and measures

The Russian currency is the rouble, which is known by the international abbreviation RUB. At the time of going to press late November 2018), the rouble was quoted against the euro and the US dollar at EUR 1 = RUB 75.0847 and USD 1 = RUB 65.8967

The Russian Federation spans nine time zones, with Moscow and St. Petersburg at GMT +3. Vladivostok and Sakhalin in the far east of Russia are GMT +10. The country uses the metric system of weights, measures and temperatures.

### General Economic Outlook

Russia has undergone significant changes since the collapse of the Soviet Union, moving from a globally isolated, centrally planned economy to a more market-based and globally integrated economy. Economic reforms in the 1990s privatised most industry, with notable exceptions in the energy and defence-related sectors. Russian industry is primarily split between globally competitive commodity producers: it is one of the world's largest exporters of oil and natural gas, steel and primary aluminium. Other less competitive heavy industries remain dependent on the Russian domestic market. This reliance on commodity exports makes Russia vulnerable to boom and bust cycles that follow the highly volatile swings in global commodity prices. In 2007 the Government started an ambitious programme to reduce this dependency and is building up the country's high technology sectors.

Russia is a BRICS (Brazil, Russia, India, China, Republic of South Africa) country. As the internationally recognised legal successor to the Soviet Union, it retains its membership in the United Nations (UN) as one of the five permanent members of the Security Council. Russia plays a crucial role in maintaining global peace and security. However, as a result of the Crimean and Ukrainian crises, Russia has been served with a long list of sanctions, which, among other things, have led to a recent decline in the Russian economy. As a result, GDP growth was negative in 2015 and 2016, but resumed in 2017. The development of bilateral and multilateral cooperation with the CIS (Commonwealth of Independent States) countries constitutes a priority area of Russia's foreign policy. Russia is also a member of the G20 (Group of Twenty), comprising the world's most industrialised nations, as well as a member of a significant number of other international organisations, including the Council of Europe and the Organisation for Security and Cooperation in Europe (OSCE). Russia is also a member of the World Trade Organisation (WTO).

The legal framework in Russia continues to develop with the growing influence of legal practice and thus legal certainty, along with measures to discourage corruption and improvement in the Civil (including Corporate) law.

Foreign companies planning to do business in Russia should study the Russian mentality and culture. They should take into consideration the Russian character, learn to understand the Russian people and build upon this understanding. Overall, the best way to do business in Russia is to understand, and accept, that things happen differently. Therefore, one has to adapt and evolve one's own mindset accordingly in order to fully exploit the market.

Russia remains a country with significant potential for foreign investors. Virtually every sector of the economy, whether state or privately controlled, requires massive investment. Businesses in the technology and innovation sphere are particularly welcomed. The challenge for the foreign investor is to determine whether the opportunities are attractive enough to outweigh the well-known market risks and uncertainties in the political landscape. Looking back over the past two decades, however, few of the major investors into Russia have had much cause to regret their investments, despite the many challenges.

Faced with continuing economic stagnation in many of the world's more developed markets, an increasing number of companies may decide that the growth prospects in Russia are worth pursuing.





### Current economic position

Russia outperformed more developed countries in 2012 even though economic growth in the country had slowed. By 2015, economic sanctions and the fall of oil prices had led to a decline in economic performance. According to Rosstat (Russia's official statistics authority), Russia's GDP fell by 3.7% in 2015, after growing by 0.7% in 2014. In 2016, positive trends could be noted: GDP fell by only 0.2% and in 2017 it grew by 1.5% compared to 2016. Projected growth (according to the Russian Ministry of Economic Development's forecast) is 1.3% in 2018 and 2.9% in 2019.

In 2017 the inflation rate was 2.5% or roughly half of the 2016 level. The Ministry of Economic Development of the Russian Federation (MED) predicts that inflation will amount to 3.1% in annual terms in December 2018. Taking into account the Bank of Russia's monetary policy aimed at stabilising inflation and restraining the growth of inflation expectations, inflation at the end of 2019 is expected to be 4.3% in annual terms, which is generally an insignificant deviation from the Bank of Russia target of 4%. According to the MED's forecast, in 2019-2020 the inflation rate is expected to remain around the level of 4%.

Although real disposable income has fallen by 0.7% in 2017, the MED has forecast growth in both real disposable income and retail turnover over the next few years by around 2% to 3%.

Even as Russia's investment climate remains under the pressure of a negative macroeconomic environment, the Russian economy has strengthened its position in leading international ratings. According to the World Bank Group's Doing Business 2018 rating, Russia ranks in 35th place, having climbed up from 120th place in six years' time. The Russian Federation has implemented over 30 reforms each year since 2004. According to the World Economic Forum's Global Competitiveness Report 2017-2018, Russia's relative performance over five years has brought it up 24 positions in the rating, where it now ranks 38th.

Although the commodity-based nature of the economy continues to hinder the development of the country, the Russian economy is recovering and growth is expected.

Large players in the world market continue making injections into the Russian economy. 2017 ended with an abnormal inflow of investments; investors are still focused on the assets of Russian companies and they are waiting for economic growth and increased consumer demand in Russia after the recession of the last two years. The main industries for investors are real estate, freight, energy, and mining.

## 2. DOING BUSINESS

### Main forms of business organisation

When establishing a business in Russia a foreign investor has a number of possible options regarding the type of entity through which to work. The most often-used forms are listed below:

- Representative office of a foreign company
- Branch office of a foreign company
- Limited-Liability Company (*obschestvo s ogranichennoy otvetstvennostyu* – designated by the prefix 'OOO')
- Joint-Stock Company (*aktsionernoye obschestvo* – designated by the prefix 'AO' or 'PAO', private or public, respectively)

A representative office and a branch are not considered to be independent legal entities, instead they are viewed as an extension of the foreign entity of which they are a representative office or a branch, respectively. Both of the other two types of entities are considered to be independent legal entities with their own legal personalities.

A joint-stock company may be either a public joint-stock company (*publichnoye aktsionernoye obschestvo* – PAO; Russian abbreviation “ПАО”) or non-public (private) joint-stock company (AO). A PAO is a joint-stock company whose shares, or other securities convertible into shares, have either been publicly placed or are publicly traded on a stock exchange. All other AOs and limited-liability companies (OOO) are deemed to be non-public (privately held).

In addition to operating through one of the entities listed above, a foreign investor may establish a business presence in Russia through a simple partnership or joint-venture agreement (JVA). Foreign companies are entitled to participate in a JVA with a local partner. A JVA is not itself a legal entity but represents the pooling of assets for the common conduct of business. One of the partners is usually appointed as the party responsible for bookkeeping and statutory reporting.

Each of the possible ways of establishing a presence in Russia has its own advantages and disadvantages.

### Formation and statutory requirements

#### Capital

Neither a representative office nor a branch of a foreign company has any capital of its own, separate from that of the foreign enterprise of which it is part. Both entities must be endowed with funds and/or property of the foreign entity on the territory of the Russian Federation and act on the basis of the provisions adopted by the foreign entity. The main difference between them is in their functions: a representative office usually performs representative functions and a branch performs representative functions and also carries on business activity in Russia. In practice, however, this division is usually not respected for foreign entities.

The authorised capital of an OOO (minimum RUB 10 000) is established in its constituent documents and is divided into 'participation interests' – shareholders are referred to as participators. An OOO may have any number of members from one to 50. The liability of each member is limited to that member's participation interest as stated in the constituent documents. Once this amount (authorised capital) has been fully paid, a member cannot be required to make additional contributions. A member wishing to withdraw from an OOO may do so by notifying the other members (or the OOO itself via its executive body) and withdrawing assets equivalent to the member's interest in the concern (i.e. net assets multiplied by the relevant participation percentage). If agreement of all the other members is given, the departing member may withdraw immediately. If agreement is withheld the departing member may, in any case, withdraw by selling his shares (participation interest) to the entity.

The authorised capital of an AO (minimum RUB 10 000) is established in its constituent documents and is specified as a given number of shares (*aktsiyi*) of a particular nominal value. An AO usually has a number of shareholders from one to 50. If the number exceeds 50, the AO is obliged to publish annual reports and annual financial statements, as required by Russian legislation on securities. In the case of a PAO

(*Publichnoe aktsionernoye obschestvo*), there is no consequence to having more than 50 shareholders. The liability of each shareholder in an AO or PAO is limited to the nominal value of the shares for which the shareholder has subscribed. Once this amount has been paid a shareholder cannot be required to make additional contributions. Share issues must be registered by the Central Bank of the Russian Federation (*Central'ny bank Rossiyskoy Federatsii*). A shareholder may sell shares to another existing shareholder or to a third party, except that in an AO, the other shareholders' approval must be obtained and in the case of a PAO, no preliminary approval is required. A PAO is able to list its shares on a public stock exchange.

#### '1-1-1' Restriction

Under Russian law, a company cannot have as a sole founder (shareholder) another business entity consisting of one person, unless otherwise provided for by federal law (this is the so-called 1-1-1 restriction, sometimes known as the 'matryoshka rule').

#### Contributions in kind

Provided that the founding documentation is drafted in an appropriate manner, a Russian company (OOO or AO) may receive contributions to its capital in kind (however, the initial authorised capital must be paid in cash). Where such a contribution made by a foreign participator / shareholder involves the import of certain types of goods and equipment, these imports may be exempted from import VAT and duties. Consequently, a company that plans to import goods or equipment for use in its business may make considerable cash savings by structuring its transactions in this manner.

#### Procedures for formation and registration

The procedures for registration of a representative office or a branch (accreditation) are identical and consist of the following stages:

- Accreditation in the Inter-District Inspectorate of the Federal Tax Service of the Russian Federation No 47 in Moscow (*Mezhrayonnaya inspektsiya federal'noi nalogovoi sluzhby #47*); this stage includes either:
  - Registration as a taxpayer with a local tax authority
  - Registration at the Federal State Statistics Service (*Federal'naya sluzhba gosudarstvennoy statistiki*).
- Registration with state social security funds (Pension, Compulsory Medical and Social Insurance)
- Production of the entity's seal
- Opening a bank account

These stages can be completed in 25-30 working days, although the process may take considerably longer if there are delays in providing the necessary supporting documents.

In addition, a representative office or a branch will usually need to go through the following processes:

- Registration of the company with the local employment centre
- Submission of quota (and extra-quota) applications to employ foreigners and application for a permit for a foreign company to engage foreign labour (an exception is made for highly experienced (qualified) specialists)
- Obtaining work permits for the foreign employees
- Registration of the company with the migration authorities (General Office on the Migration Issues of the Ministry of the Internal Affairs) for the purpose of getting invitations
- Notification of the local tax authorities and the local employment centre concerning the foreigner(s) employed

The process for formation of an OOO and AO is essentially the same as for a branch or representative office except that:

- Instead of an initial accreditation with the State Registration Chamber – the companies must register with the tax authorities
- An AO must also register with the Central Bank of the Russian Federation (CBRF) following initial registration

The registration process can be completed in three weeks although, as with the accreditation of a branch or representative office, the process may take considerably longer if there are delays in providing the necessary supporting documents. Registration with the CBRF takes a further month.

#### Costs of accreditation and incorporation

Formation of an OOO or AO requires payment of duty of RUB 4000.

A representative office or a branch of a foreign company may be accredited for an unlimited period. There is a registration duty for the registration of a representative office, which amounts to RUB 120 000. In addition, a foreign company will have to pay from RUB 5000 to RUB 15 000 depending on the number of foreign employees to the Russian Chamber of Commerce and Industry for certifying the number of foreign employees. Also there will arise some costs for notarial services and services of translation of documents, as well as interpretation for foreign representatives in the certification of documents by a notary.

#### Changing legal form

If a Russian company has been registered in one form, e.g. as an OOO, it is possible subsequently to change the form of registration to another, e.g. an AO. The process of making this change is easier when the change is from an OOO or AO. It is more difficult if a company that is registered as a PAO wishes to re-register as an OOO.

#### Other commercial entities

Other forms of entity include the general partnership (*polnoye tovarishestvo*), the trust partnership (*tovarishestvo na vere*), the production cooperative (*proizvodstvenny kooperativ*) and some others.

#### Activities

A representative office is restricted to carrying out activities that are ancillary to the main activity of the company it represents. These include carrying out market research, placing advertisements, participating in exhibitions and trade shows and signing contracts on behalf of the company it represents. However, it is not allowed to conduct any kind of commercial activity. As a result, it cannot issue invoices. Its ability to complete customs clearance procedures for the import or export of goods is limited to goods that it uses in its own activities i.e. it cannot affect customs clearance for goods that are to be resold.

A branch has the right to conduct commercial activities including the provision of goods and services. However, there are some activities, particularly those for which a licence is required within Russia, which a branch is prohibited from carrying out. Although there may be theoretical restrictions on the ability of a branch to complete customs clearance procedures, in practice it is able to do so. To do so the branch must first go through a registration process with the customs authorities.

As an independent legal entity, an OOO or AO/PAO has the right to enter into any kind of commercial activity. It should be noted that this general ability is limited in certain restricted/controlled spheres by the need to first obtain a licence/accreditation/permission. It may complete customs clearance procedures for the import and export of goods. To do so the company must first go through a registration process with the customs authorities.

#### Corporate governance

Management of a representative office or a branch is vested in the head of the representative office or branch, respectively. The head is appointed by the parent company and acts on the basis of a power of attorney from that company. The power of attorney may be absolute or alternatively may place limitations on the authority of the head of the office or branch. The parent company may revoke the power of attorney at any time and may issue a new power of attorney to a replacement.

The ultimate governing body of an OOO or AO is the General Meeting of its members. An executive body (which may be collegial or consist of one person – usually a General or Managing Director) must be established to carry out the day-to-day management of its activities and is answerable to the General Meeting of its participants. An OOO or AO may have a board of directors in addition to the Managing Director, but this is not mandatory.

In a PAO, the ultimate governing body is the General Meeting of Shareholders. A Board of Directors (Supervisory Board) is mandatory for a PAO and is responsible for the general management of the company. Some competencies of the General Meeting of Shareholders may be passed to the Board of Directors. Under certain circumstances, a General Meeting of Shareholders may carry out the functions of the Board of Directors. Management of current economic activities is carried out by the Executive Board. The Executive Board of the company may be collective (governing board, directorate) or consist of one person (director, general director).

### **Currency control and repatriation of profits**

Russia's currency regulations require all resident entities carrying out commercial activity with non-resident entities (including the Russian branch of a foreign entity) to provide their bank with supporting documents. Transactions are subject to mandatory control (registration) in the Bank if:

- The amount of the import contract (loan agreement) is not less than RUB 3 million
- The amount of the export contract is not less than RUB 6 million.

The administrative burden of currency control is placed on the resident entity whenever it sends a payment to, or receives a payment from, a non-resident entity.

A representative office is usually unable to participate in commercial activity. It cannot generate a profit and there will therefore be no profits to repatriate. Subject to the presentation of appropriate documentation to the recipient's bank, a parent entity may make cash transfers to a representative office or a branch in order to fund its activities. Any surplus funds may be returned to a parent entity subject to the presentation of appropriate documentation to the paying bank. A branch is able to repatriate any after-tax profits to its parent entity without deduction of withholding tax.

An OOO, AO or PAO may pay a dividend to members, including foreign shareholders, out of after-tax profits. Such dividends, if paid to a foreign shareholder, are subject to withholding tax of 15%. The rate of withholding tax may be reduced or eliminated subject to the terms of the relevant treaty for the avoidance of double taxation (if any).

### **Labour relations and working conditions**

The Russian Employment Code (*Trudovoy kodeks*) forms the basis of labour relations in Russia, establishing procedures for hiring and dismissal of employees, as well as regulations concerning working time, holidays, business trips, salary payments etc. Russian employment law applies to all employees working on the territory of Russia regardless of their nationality or the country of incorporation of their employer. This covers expatriates as well as Russian citizens, regardless of where employment contracts were concluded.

Russian immigration rules oblige employers to conclude local employment agreements with expatriates in order to obtain work permits.

#### **Employment contracts**

Two types of employment contract are available:

- Employment as a permanent employee (regulated by the Employment Code of the Russian Federation and established for an unlimited term); or
- Employment as a temporary employee (regulated by the Employment Code of the Russian Federation and established for a limited term)

An employee may also be hired as a remote employee (who performs his functions without being in the office, is usually assigned tasks and produces a report on the work done via the internet). In 2013, a corresponding amendment to the law was introduced.

All salary taxes and social security contributions under an employment contract are the responsibility of the employer. Civil agreements are entered into when performance of certain tasks is at the contractor's risk and is of a temporary nature.

All employment contracts should be in writing, signed by both parties and with Russian translations where applicable.

The following essential conditions should be included in an employment contract regulated by the Employment Code: start date; duration of the contract; place of work; position; terms of payment; rights and obligations of parties; job function, work hours, vacation entitlement etc. The employment contract may also include provisions for a trial period and confidentiality.

It is also recommended, separately, to develop official instructions for the employee. In addition to all this, the employer must very clearly manage personnel records management, namely: to establish the document flow in the company according to Russian standards, to take into account the working time of the staff, if necessary, to pay overtime and so on.

A trial period of up to three months is allowed for most employees, whereas a trial period of six months for directors and chief accountants is the norm. In the case of temporary employment for a period of between two to six months, the trial period must not exceed two weeks. Employment contracts with a limited term should generally be concluded if it is impossible to conclude contract for an unlimited term. Courts have the power, in the appropriate circumstances, to recharacterise a contract for a limited term as one for an unlimited term.

### Employee rights

Employees may not be required to work for more than eight hours per day and 40 hours per week and must have a lunch break of no less than half an hour and of no more than two hours. Employees should be compensated for overtime, but the law is stringent in limiting overtime hours. Overtime work should not exceed four hours in two consecutive days. The maximum number of overtime hours per year is limited to 120 hours. Employees may take time off in lieu. Female employees are only required to work a 36-hour week in regions that are classified as 'Extreme North' and areas that are equivalent to 'Extreme North'.

Employees are entitled to 28 calendar days' (rather than working days') holiday per annum as well as nine public holidays. Employees working in regions that are classified as 'Extreme North' are entitled to 52 calendar days' holiday per annum. Employees working in regions that are classified as equivalent to Extreme North are entitled to 44 calendar days' holiday per annum.

Maternity leave is generally a mandatory 70 (maximum – 140) calendar days, compensated by the State Social Insurance Fund up to a maximum of RUB 2017.81 per day, with the mother's position kept available until the child is one and a half years old. On giving birth, mothers are entitled to receive a one-off allowance in the amount of approximately RUB 16 759. Employees are eligible to take leave to take care of the child until he or she reaches the age of three. Employers in this case pay a monthly allowance of 40% of average remuneration but not less than RUB 4465.20 and not more than RUB 24 536.57 per month (for the first child) until the child reaches 18 months, which is financed by the State Social Fund.

Employees are compensated for periods of illness by the State Social Insurance Fund, up to a maximum of RUB 2017.81 per day.

Employees and family members working in regions classified as 'Extreme North' or equivalent to 'Extreme North' are entitled to paid travel vouchers within Russia once every two years. If these employees leave the region permanently (regardless of a reason), the employer has to set the rules to reimbursement of the cost of travel to a new place of residence and luggage transportation.

### Termination of employment contracts

Employment contracts can be terminated by either the employee or the employer. At least two weeks' written notice is required if it is initiated by the employee. If initiated by the employer, the contract may be terminated by mutual agreement, expiration of the terms of employment, the liquidation of the employer or violation of employment-contract provisions. Where the contract is terminated by the employer without the agreement of the employee, procedures are detailed and complex. To save time and money, it is advisable to seek the services of a Russian employment lawyer before trying to dismiss an employee. Before any court hearing all documents should be reviewed by an experienced Russian employment lawyer. On hiring or termination of employment, each employee's workbook must be signed.

### Trade unions

Since the end of the Soviet period in Russia, trade unionism has changed from being subservient to the state or any political party. In Russia, trade unions are well protected by law: they enjoy numerous rights and political support. Employers may neither prohibit their employees from joining a trade union nor require them to do so. Neither may they require that employees wishing to join a trade union join a specific organisation, nor discriminate on the ground of trade-union membership.

Due to the historic functions of trade unions, which were used primarily during Soviet times as an arm of management rather than as genuine upholders of the workforce's interests, it is less common than in other countries for union activity to disrupt civil society due to any protests.

### Social security benefits

Insurance contributions to state pension, medical, and social security funds were first introduced in 2010. The latest amendments were adopted in 2017, by Government Decree No 1378 of 15 November 2017.

Social security contributions are the employer's responsibility, and they remain payable at the employer's expense. Employees continue not to have any liability to pay social security contributions. From a corporate perspective, the company may deduct for profit-tax purposes the social security contributions that are paid.

For full details, see Chapter 9.

Previously, insurance contributions were not paid on the remuneration of foreign nationals who were temporarily staying in Russia. Employers were required to pay insurance contributions only on the salaries of foreign nationals who had temporary or permanent Russian residence permits. Based on the new legislation, many expatriates working in Russia would be regarded as insured individuals for pension purposes, as, in practice, local employment contracts with foreign employees are seldom concluded for less than six months.

### Pensions

Since 2002 Russia has operated a pension system including obligatory pension insurance, state pension support and non-state pension insurance. According to the Strategy for the Long-term Development of the Pension System of the RF of 25 December 2012 (as amended), the development of Russia's pension system through to 2030 must be appropriate for the modern economic development of the Russian Federation and comply with international standards.

In Russia all senior citizens receive pensions independent of their seniority. The standard pensionable age for occupational pensions is 55 years for women and 60 for men. Starting from 2019, state pension age is to increase gradually from 55 to 63 for women and from 60 to 65 for men.



**State pension support**

State social security pensions are provided to citizens who are not entitled to an occupational pension. State social security pensions are also provided to compensate civil servants for income lost due to cessation of their salary when they reach their long-service term or to mitigate the harm to health caused during military service due to radiation or technogenic disasters in case of disability or loss of breadwinner and in a number of other cases.

The state social security pension is funded by the federal budget of the Russian Federation. The pension fund of the Russian Federation pays state social security pensions to more than 5 million people.

**Obligatory pension insurance**

Occupational pensions are established and paid under the obligatory pension insurance (OPI) fund, which is the main beneficiary fund from social security contributions.

The occupational pension is a monthly cash payment intended to compensate wage and other payments lost by the insured person due to age or disability. This pension also compensates wage and other payments and benefits of breadwinners to disabled members of the insured person's family, lost due to the death of those insured. The right to receive this pension is guaranteed by legislation.

The most common kind of occupational pension is the old-age occupational pension. In order to receive such a pension, the individual must have been insured under the scheme for a minimum of five years.

More than 40 million people in Russia receive old-age occupational pensions.

**Non-state (additional) pension security**

Individuals may also take out private pension schemes, to which their employers may also contribute.

**Health care**

In the Russian Federation, provision for healthcare is one of the primary social functions of the state, covering delivery of medical care, prevention of disease, and improvement of the population's health. The main guarantees in this area are provided by Federal Law No 323-FZ and Government Decree No 1640.

Since 2011, a programme of compulsory health insurance, which provides Russian citizens with all inherent healthcare tools in particular medical centres, applies. In the major cities, people can also pay for private medical insurance, and these services are provided by independent clinics that are not included in the compulsory health insurance programme. Private medical insurance may be individual or collective.

Foreign nationals requiring healthcare will be entitled to treatment in state hospitals and will have to pay for prescribed medicines. For those working in Russia as Highly Qualified Specialists (see below), the employer is obliged to pay for health insurance for the employee and family members from the date of their arrival in Russia, as a compulsory condition of the contract of employment.

**Work permits, visas etc**

Expatriates entering Russia for work-related reasons must have either a single-entry business visa or a multiple-entry visa. To obtain either visa, a company in Russia must request the Chamber of Commerce and Industry of the Russian Federation to issue a Letter of Invitation to the individual. It can take up to four weeks to issue such a letter.



This Letter of Invitation is taken to a Russian Embassy or visa office along with a completed visa form. Before a company in Russia can request the Chamber of Commerce and Industry to issue such an invitation, it must be duly registered in accordance with the requisite norms of Russian legislation.

Foreign citizens work in Russia on the basis of a work permit (patent).

Special conditions for employment in Russia are provided to citizens of Belarus, Kazakhstan, Armenia and Kyrgyzstan, since they are members of the Eurasian Economic Union (EAEU). Formalities are simplified, and unlike citizens of other states, citizens of these countries do not require a patent to work in Russia.

### **Highly Qualified Specialists (HQSs)**

A HQS is a foreign citizen earning not less than RUB 2 million per annum from an employer in Russia. A simplified quota-free one-step application procedure for work permits and visas is now operating for HQSs intending to work in Russia for Russian legal entities or branches of foreign legal entities (but not representative offices). A HQS may apply for work permits and work visas valid for three years with the opportunity to extend their validity for subsequent three-year periods. This is compared to a one-year work permit and visa received by other foreign workers.

The employer of an HQS must register the individual concerned with the tax authorities and provide that individual with private medical insurance. Employers must submit quarterly reports to the immigration authorities on salaries / remuneration paid to HQSs, on cases of termination of employment agreements with HQSs and on cases of provision of unpaid leave exceeding one month.

### **Work permits for non-HQSs**

The process for obtaining work permits is very time consuming and a number of government approvals are required. It can take up to four to five months for a company to receive permission to use foreign labour and to obtain work permits for its employees. The following steps should be taken:

#### **1. Submission of foreign-labour needs forecasts (quota application)**

Companies must report annually before 1 May the number of foreign employees (excluding HQSs but including citizens from other CIS countries) they anticipate needing in the coming calendar year. Precise positions and citizenships of those anticipated must be given. This establishes a quota, which a company must have before it can begin any work permit applications.

The Government of the Russian Federation has the right to establish annually the permissible share of foreign workers employed by economic entities in various sectors of the economy. If the number of foreign workers employed by the employer in the relevant field of activity exceeds the share established by the Government of the Russian Federation, the employer is obliged to reduce the number of such employees before the beginning of the year for which this allowable share is established.



## 2. Work permits

All expatriates working in Russia must hold valid work permits. It is the company's responsibility to apply for the permits, except in the case of CIS citizens who apply for their own permits under a simplified procedure. There are five key steps to the process:

- The employer submits the latest information on expected job vacancies for expatriate employees to the Employment Centre.
- The employer applies to the Migration Service for a permit (corporate permit) to engage foreign labour.
- Once a Corporate Permit has been issued, then individual work permits can be applied for.
- After the work permit is issued, the employer should arrange a work-visa invitation letter.
- A single-entry work visa is initially granted by the Russian Consulate or visa office abroad and will be valid for up to three months. Once the worker arrives in Russia, under this single-entry visa, it should be replaced by a multiple-entry visa valid for the term of the work permit (but not exceeding one year).

In November 2012, the Government introduced mandatory tests in the Russian language, history and law for all foreign workers. The only category that is exempt is HQSs.

On arriving in Russia, individuals must register with the migration authorities within seven working days. They are also required to retain their migration card (obtained on entry to the country at border control points) until they leave.

### Sanctions for non-compliance with the immigration legislation

Russian legislation includes severe sanctions for companies, their executives and foreign citizens for non-compliance with the immigration legislation. The higher level of financial sanctions applied to a company can reach RUB 800 000 per foreign individual per violation. In the worst situation, deportation of the individual from the country and / or suspension of the employer's business activities for up to 90 days and / or a bar on engaging any foreigners under the simplified HQS regime for up to two years can be enforced.

### 3. FINANCE AND INVESTMENT



#### Business regulation

##### Competition policy

The Federal Antimonopoly Service of Russia (*Federal'naya antimonopol'naya sluzhba Rossii* – FAS) regulates market-competition policy. Its main goal is to ensure adherence to anti-monopoly regulations set out in Russian competition law. The FAS can prevent unfair competition, state aid or agreements that decrease competition and abuse of a dominant position in the market. To be legitimate, some types of state aid (granting a business any privileges in the form of property, proprietary rights or benefits) must first receive written approval from the FAS.

Any agreement or activity that may reduce fair competition (control over prices, price fixing, change in prices) is not allowed. There are some minor exceptions to this, related to 'vertical' agreements.

Companies that are dominant in a market are forbidden from setting minimum or maximum prices or varying prices for the same goods. Forcing counterparts to accept disadvantageous contract terms is also not allowed.

The FAS may audit companies' activities to ensure compliance with competition law and make requests for the information it needs for the audit. Violations of competition law can entail harsh penalties for a company and its leadership. The Russian Criminal Code sets out criminal liability for company executives guilty of breaching competition law, and the Service can fine companies up to 0.15% of the revenue raised from transactions.

##### Price controls

Price controls (where companies must set prices in accordance with state tariffs) exist for natural monopolies e.g. railways, gas, electricity. There are also other special regulations for certain other goods and services e.g. pharmaceutical goods and alcoholic beverages.

##### Patents, trademarks and copyrights

Russia is a party to all major international agreements and conventions on intellectual property. On 1 January 2008, Chapter IV of the Civil Code of the Russian Federation came into force. This covers patents, trademarks and copyright, and replaces any earlier legislation in these areas. It codifies provisions of intellectual property law, introduces clear legal terminology and new intellectual-property rights, resolves conflict-of-laws issues and strengthens protection of intellectual-property rights.

Russian civil law regulates the legal protection and use of inventions, utility models and industrial designs. Many of its provisions are similar to those in other industrialised countries, as they correspond to international treaties on patent-law harmonisation and the Patent Cooperation Treaty. When confirming the patentability of an invention, an examination of merits is performed.

Legal protection of a trademark is given on the basis of its official registration or under international treaties / conventions to which Russia is a party. The trademark owner must use the trademark in his business activities; failing which, an interested party can apply to deregister the trademark with the Chamber of Patent Disputes.

Copyright is generally granted to the author of works of science, literature and art (including software). Exclusive right to reproduce, distribute, demonstrate, modify etc works are granted to authors for their lifetime plus 70 years after their death and are transferable and disposable.

Legal protection of production secrets (know-how) is afforded only if the owner of the know-how takes specific actions under Russian law. The information constituting the know-how must meet Russian legal requirements and have real or potential commercial value owing to the fact that third persons do not know it and do not have free access to it. Also, the owner must introduce a confidentiality regime with respect to the information.

Intellectual-property licence or assignment agreements for patents or trademarks must be registered with the Federal Service for Intellectual Property, Patents and Trademarks of the Russian Federation (*Federal'naya sluzhba po intellektual'noy sobstvennosti*, commonly known as 'Rospatent'). Generally, copyrights need not be registered. Copyright owners of software or a database can register them with Rospatent at their own discretion. After a voluntary registration like this, the assignment agreement for the registered software or database must also be registered with Rospatent.

### Banking and local finance

The Central Bank of the Russian Federation (CBRF) is the main regulator of banking activity. The CBRF issues licences to all credit institutions in Russia. A general licence allows banks to conduct substantially all common banking operations, including deposit and distribution of monetary funds, keeping accounts, making payments and issuing guarantees. Special licences are needed for a few types of banking operations, e.g. the deposit and resale of precious metals.

The CBRF also regulates and oversees activity in the financial markets, including stock exchanges. It also regulates the investment of pension savings. Key activities are to maintain stability in the financial markets, make the markets more efficient and attractive to investors, increase market transparency and reduce investment risks. It regulates the activities of financial market players and establishes the conditions for issuing and trading securities.

#### Commercial banks

Before the economic downturn, the banking sector had been developing rapidly, faster than the economy as a whole, and was one of the most attractive sectors for investment. During the economic downturn, however, the banks faced liquidity problems, with an outflow of funds, and the level of bad debts increased.

As at 1 January 2018 there were 561 banks in Russia, but their numbers have been decreasing steadily over the last few years mostly due to the economic crisis and stricter CBRF requirements with regard to bank liquidity and solvency. The Russian Government stepped in to help prevent the collapse of the banking system. Many banks were amalgamated. Some banks were given financial support from Federal resources.

#### Insurance

Since 2013, the Russian insurance market has entered the age of instability. However, despite the crisis, the quality of regulation and control over the market has improved. The Central Bank of the Russian Federation regulates insurance activity. On 31 March 2018, there were 223 insurance and reinsurance companies in Russia. From 1 January 2017, insurance companies are required to reinsure 10% of their risk with the National Reinsurance Company. Analysts consider that the main threats for the Russian insurance market are risks of imbalance in the OSAGO (mandatory third-party liability insurance) system. The life insurance market remains one of the few segments that have been growing in recent years.

#### Securities

The Moscow Stock Exchange (MOEX) dominates the Russian securities market. The Stock Exchange is a universal platform for both Russian and international investors to trade in equities, bonds, derivatives, the foreign-exchange market, money markets and precious metals. The Moscow Exchange Group also operates Russia's central securities depository (National Settlement Depository) and the country's largest clearing-service provider (National Clearing Centre). MOEX's IPO took place in February 2013. MOEX is the largest exchange in Russia, the CIS and Eastern Europe.

### Exchange control

As a rule, payments between residents must be made in Russian roubles. One exception to this is that residents may borrow from and repay authorised banks in a foreign currency.

### Payments between non-residents

Non-residents have the right to open and operate both foreign currency and rouble bank accounts in an authorised bank. They may make payments between themselves in a foreign currency without restriction, but rouble payments in Russia may only take place through bank accounts opened with authorised banks.

### Payments between residents and non-residents

The general rule is that there are no restrictions on currency operations between residents and non-residents.

### Investment incentives

#### Guarantees and rights of foreign investors

Generally, foreign investors enjoy the same rights and guarantees as local market participants. However, as mentioned above, certain restrictions and requirements apply for foreign investors wishing to invest in certain sectors and investment targets (i.e. certain types of land, strategic companies etc.)

#### Russian Direct Investment Fund (RDIF)

The RDIF (*Rossiiskiy fond pryamykh investitsii*) is a USD 10 000 million private-equity fund established in 2011 by the Russian Government to make investments primarily in the Russian economy. The fund partners with co-investors in every transaction, thus acting as a catalyst for direct investment in Russia. The management company of the fund is a 100% subsidiary of Vnesheconombank (VEB), Russia's State Development Bank, and it operates according to international best practices of investment governance. The formation of the RDIF is part of a broader initiative underway to modernise Russia's economy. This includes efforts to improve the investment climate, promote the development of innovation-driven industries and transform Moscow into an international financial centre.

#### Skolkovo Innovation Centre

The Skolkovo Innovation Centre is a high-technology business area located at Skolkovo village in the Odintsovsky district of the Moscow region. The strategic goal of the Skolkovo Innovation Centre is to concentrate international intellectual capital in order to stimulate the development of break-through projects and technologies. Companies are selected to become project participants in the centre and these will be supported by the various business-support initiatives available. The Skolkovo Foundation is building an environment with the support of international companies keen to work in such an innovative research and development environment. Also, companies-participants of the Skolkovo Innovation Project have tax breaks. These companies don't pay corporate income tax, VAT and other taxes for 10 years from the date of getting status of participant Skolkovo Project.

Venture capitalists (VCs) play a key role in the Skolkovo project. The Foundation is expanding financing options available to early-stage high technology. It also improves the risk/return rate for VCs and expands the amount of investment opportunities available to them. Skolkovo has developed a co-financing programme for VC-backed companies in addition to a unique package of low taxes, easy regulations and business development support.

#### Special Economic Zones

The Russian State has four types (industrial, innovation, tourism & recreation and ports) of Special Economic Zone (SEZ) aimed at encouraging innovation-driven growth. At 1 January 2018 there were 26 zones in operation, fostering a favourable business environment and featuring state-built infrastructure, free-customs area treatment, tax and other benefits. The pursuit of industrial-clusters policy has been attractive to foreign investors. Companies located in an SEZ also have special tax incentives (see Chapter 6 for more details).



## 4. THE ACCOUNTING AND AUDIT ENVIRONMENT



### Accounting regulations

Russian accounting standards (RAS) are regulated by state authorities rather than by independent professional organisations. A standard format for bookkeeping codes (Russian Chart of Accounts) and accounts presentation is prescribed. All financial statements are to be prepared in roubles and in the Russian language. Every legal entity registered in Russia must prepare stand-alone RAS financial statements for each calendar year ending 31 December.

The accounting standards are very prescriptive and have historically been tax-oriented. They addressed bookkeeping procedures more than financial-reporting rules. Russia has a publicly expressed policy of harmonising Russian standards with International Financial Reporting Standards (IFRS). In recent years many regulations have been relaxed (for example small entities may provide cut-off bookkeeping and produce abbreviated financial statements). However, although regulations have been relaxed, many companies continue to adopt practices that are at odds with IFRS. Recently, financial statements in Russia are prepared in electronic form. But document flow between counterparties is predominantly in paper form, although they have a right to use electronic documents. Within the next two years, the Russian government plans to approve new Russian accounting standards that will be close to IFRS.

The Federal Accounting Rules Act provides that foreign companies operating in the Russian Federation are exempted from the need to produce financial statements. As a consequence, branches and representative offices of foreign legal entities may elect not to maintain accounting records and prepare financial statements according to Russian Accounting Standards (RAS), provided they maintain tax records compliant with Russian tax legislation.

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 the exceptions being when a legal entity is registered, reorganised or liquidated. If required by law, a commercial legal entity must 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 (statement of financial position)
- The income statement
- 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.

### **RAS audit requirements**

Representative offices and foreign branches are not required to have a Russian statutory audit. The audit of annual RAS financial statements is mandatory for

- Joint-stock companies
- Companies with securities traded on stock exchanges
- Banks and other lending agencies, insurance companies, credit bureaux, pension and investment funds, securities' market participants and stock exchanges
- Companies with annual revenue for the preceding financial year exceeding RUB 400 million
- Companies with total assets as at the preceding 31 December exceeding RUB 60 million

Publicly traded companies, banks, insurance companies, non-government pension funds, and companies with more than 25% state participation must be audited by an audit firm, rather than by an individual auditor.

### **Application International Standards on Auditing (ISA) in Russia**

From 1 January 2017 auditing activities in Russia should be conducted in accordance with International Standards on Auditing (ISA) but audit companies and auditors (individuals) must be certified in compliance with the Auditing Activity Act.

### **Common areas of departure from IFRS**

The following are the most common areas in which Russian companies tend to depart from IFRS (either because regulations are not in compliance with IFRS or because they choose not to adopt policies that are in compliance):

- Financial-statement presentation and disclosure
- Accruals
- Fixed-asset carrying values
- Depreciation
- Impairment
- Accounting for equity
- Provision accounting
- Finance leases and
- Bad debts and provisions

### **Adoption of IFRS in Russia**

In 2010, the Federal Consolidated Financial Statements Act was adopted. Under this law, public-interest entities (PIEs) are now required to prepare consolidated financial statements under IFRS, in addition to stand-alone statements prepared under RAS.

PIEs include companies with securities traded on a stock exchange, banks and insurance companies. Other entities that have issued securities by way of public offering, or by means of private placements to a wide group of shareholders, must also prepare consolidated financial statements under IFRS.

Annual consolidated IFRS statements must be audited, presented to the shareholders and filed with the Central Bank of the Russian Federation within 120 days of the year-end. The financial statements must also be published.

## 5. OVERVIEW OF THE TAX SYSTEM

### Main taxes in Russia

The following are the main taxes levied in the Russian Federation:

- Corporate income tax (profits tax)
- Mineral outputs tax
- Personal income tax
- Value added tax
- Corporate property tax
- Land tax
- Excise duties
- Customs duties

### Returns and records

The Tax Code of the Russian Federation (*Nalogoviy kodeks Rossiiskoy Federatsii*) states that the tax-reporting procedures for foreign companies operating in the Russian Federation are the same as those for Russian companies. As a consequence, a branch is required to submit returns for all relevant taxes including profits tax, VAT and property tax amongst others and will be liable to pay all these taxes in the same way as any other commercial entity in Russia. The same concerns a representative office except that as a non-commercial entity it will file a nil profits-tax return and pay no profits tax but will be subject to all other taxes levied on businesses in the Russian Federation.



## 6. TAXES ON BUSINESS

### Corporate income tax

#### Taxable entities

Profits tax (*nalog na pribyl' organizatsii*) is levied on legal entities established under the legislation of the Russian Federation. These legal entities include:

- Limited-liability companies (OOOs)
- Public joint-stock companies (PAOs)
- Non-public joint-stock companies (AOs)
- Additional-liability companies
- General partnerships
- Limited partnerships
- Industrial cooperatives and
- Unitary enterprises (a unitary enterprise is a special form of legal entity, which is fully owned by the state or by a municipality)

General partnerships and limited partnerships are treated as separate taxpayers and taxed accordingly. Because they lack legal personality, other partnerships (i.e. simple partnerships and silent partnerships) are transparent entities, and their income is taxed in the hands of partners.

#### Taxable period

The tax year is the calendar year. Taxable income is income derived during the calendar year. In addition, the year is divided into reporting periods ending 31 March, 30 June, 30 September and 31 December. The taxpayer may, however, elect to calculate and to report taxable income on a monthly basis.

#### Scope and extent

In general, resident companies are taxed on their worldwide income. Foreign entities are taxed on income from commercial activities undertaken in Russia and on passive income from Russian sources.

#### Company residence

Companies are treated as residents for the purposes of profits tax if they are established in accordance with Russian law, wherever their business may be carried on. Foreign entities managed from Russia may be recognised as Russian tax residents.

#### Taxable income

Taxable business profits are the total income from a business, the proceeds of alienation of assets, and other income, decreased by business and other expenses (e.g. finance expenses). Profits are determined according to the rules in the tax legislation (accounting figures are not relevant). In general, the accrual method is used. However, a company may use the cash method if its turnover during the preceding four quarters did not exceed on average RUB 1 million for each quarter.

The most important exemptions for the purposes of calculation of taxable profits include:

- Dividends received redistributed to resident shareholders
- Tangible and intangible assets contributed to share capital
- Assets donated to a resident company from its parent or subsidiary, provided that the participation is more than 50% of the capital of the distributing company and the assets are not distributed onwards to a third person for a period of one year
- Income from the exploitation of ships registered in the Russian International Registry of Ships in international traffic or from renting out such a ship for such a purpose and
- Bonus shares due to the increase of capital out of retained earnings. However, this rule does not cover participation rights in a limited-liability company

Inventory must be valued at the end of each month. Raw materials, goods supplied, work in progress and finished goods are valued at cost, including costs relating to their acquisition. The law permits the use of the weighted average, FIFO and LIFO methods. Separate valuation of inventory items is allowed for unique items which cannot replace one another.

Special inflation adjustments are not made.

### Capital gains

There is no separate capital gains tax in Russia. Capital gains are taxable as normal business income.

Income from the alienation of shares in Russian companies held for a period longer than five years is exempt from profits tax if one of the following conditions is satisfied:

- The shares were acquired after 1 January 2011
- The shares are non-listed securities during the whole holding period
- Not more than 50% of the company's assets consists of immovable property

The time threshold for the holding of shares in Russian companies related to the high-technology (innovative) economy sector is one year.

### Deductions

In general, companies may deduct all necessary expenses paid or accrued during the year in order to carry on a business aimed at profit-making; however, all expenses to be deducted (including management fees and employee or director's remuneration that might be normally deductible) would be subject to the following general deductibility criteria established by the Russian tax legislation:

- Expenses should be economically justified (i.e. should generally be linked to income-generating activities of the company)
- Expenses need to be supported by the relevant documents prepared in accordance with Russian legislation

Dividends paid by the company are not deductible.

The deduction of certain expenses is subject to established ceilings. Such expenses include:

- Pension premiums or life annuities on behalf of employees, which expenses are deductible up to 12% of the current year's payroll
- Research and development expenses are deductible after the work on which they have been incurred has been completed
- Promotional expenses are deductible up to 4% of the current year's payroll

### Interest

The deduction of interest is subject to transfer-pricing and thin-capitalisation rules. The limitation of deductibility applies to interest expenses on debt obligations recognised as controlled transactions for transfer-pricing purposes.

If the provision of a loan is not treated as a controlled transaction, the interest expense may be deducted at the actual rate. Otherwise the borrower has the right to recognise such interest as an expense if that rate is lower than the highest value of the interval values established by the Tax Code.

The rate interval range established for controlled transactions denominated in roubles is 75% to 125% of the key rate of the Central Bank of Russia. The interval for loans in euros is EURIBOR+4% to EURIBOR+7%; for loans denominated in other currencies (providing the applicable interval for other currencies is not set by the Tax Code) the interval is LIBOR+4% to LIBOR +7%.

The deductibility of interest is also limited under thin-capitalisation rules (see below) when paid to non-residents.

### *Tax depreciation*

Depreciation is compulsory and must be taken whether or not the company makes profits. Depreciation is calculated on a monthly basis.

Depreciable assets are defined as tangible and intangible assets with a useful life exceeding 12 months and an historic cost exceeding RUB 100 000 which are owned by the taxpayer and used for carrying on a business. Expenditure on assets with a lower cost is fully deductible in the year of acquisition.

Land, natural resources, inventory, securities, futures and forward contracts, books and works of art are not depreciable. Assets that are not used for three months or more during the tax year are not depreciable; the same applies to assets under renovation for longer than 12 months.

Depreciable assets are pooled in ten groups, according to their useful life (from one year to over 30 years). The depreciable base is the historic cost of the asset, i.e. the acquisition price, the related costs and costs incurred in putting the asset into use. For assets received gratuitously, market value is used.

A taxpayer may use either the straight-line method or the reducing-balance (non-linear) method of depreciation. A taxpayer may change the depreciation method starting from the beginning of the tax year; a change is allowed only once in five years. However, for buildings with a useful life of more than 20 years (assets included in Groups 8 to 10), only the straight-line method is permitted.

Intangible assets may be amortised irrespective of whether they are acquired or internally generated. They must, however, meet the general conditions for depreciable assets (see above).

### **Dividends, interest and royalties**

#### **Dividends**

In general, dividends received by a Russian entity from both Russian and foreign entities are subject to tax at a special rate of 13%.

Dividends received by resident companies from other resident companies are exempt from both withholding tax and corporate income tax (participation exemption) if:

- The recipient company holds a minimum participation of 50% of the capital in the distributing company
- The participation has been held continuously for at least 365 days

Foreign dividends may qualify for the participation exemption unless the distributing company is resident in a country or territory that is a listed low-tax jurisdiction and/or does not exchange information with Russia.

Unless the participation exemption applies, gross dividends and other profit distributions by resident companies to other resident companies are subject to a 13% withholding tax. This tax is final, and the dividends are not included in the recipient's taxable base for corporate income tax.

The taxable base for withholding tax is reduced by the amount of dividends received by the distributing company from other companies and/or distributed to non-residents. Thus, distributed profits are subject to tax only once, and are exempt from tax in the case of any redistribution to resident shareholders.



Withholding tax on the distribution to non-residents is calculated separately. Dividends paid to non-resident companies directly are subject to a 15% final withholding tax on their gross amount, unless a treaty provides otherwise.

### **Interest**

In general, interest income is included in the taxable base for corporate income tax and taxed at the normal rate.

Interest not connected to a permanent establishment is subject to a 20% final withholding tax on the gross amount, unless a treaty provides otherwise. However, irrespective of the attribution to a permanent establishment, interest on state and municipal securities is taxed at a rate of 15%.

### **Royalties**

Royalties are taxed as ordinary income at the normal corporate rate. Royalties not connected to a permanent establishment are subject to a 20% final withholding tax on their gross amount, unless a treaty provides otherwise.

The definition of the term 'royalties' broadly follows the concept used in the UN Model Convention. However, it does not include income from the use of, or the right to use, industrial, commercial or scientific equipment.

### **Group taxation**

Starting from 2015, consolidation of a group of taxpayers is no longer possible. The former regime was optional and applied only to Russian companies (i.e. no cross-border consolidation was allowed). To form a group, the consolidating companies had to sign a Tax Consolidation Agreement. This agreement detailed, inter alia, the members of the group, the consolidation period (a minimum of two corporate income tax periods applied) and the member responsible for consolidated filing and payment of tax.

In order to form a group, certain conditions had to be met. The most important were:

- A group consisted of a parent company and subsidiaries in which it had a participation of at least 90% (directly or indirectly)
- The total amount of VAT, excise duty, corporate income tax and mineral extraction tax payable by the group was at least RUB 10 000 million
- The combined turnover of the group members was at least RUB 100 000 million and
- The combined value of the assets was at least RUB 300 000 million

The consolidated profit was determined on the basis of all income and expenses of the members of the group. Income of the group members that was taxed at source was not included in the consolidated profit.

Penalties with respect to the consolidated group of taxpayers have been introduced. If a member of a consolidated group provides inaccurate information to the responsible member of the consolidated group, leading to underpayment of tax, a penalty of 20% of underpaid tax is imposed (40% in the case of a deliberate act).

Pre-consolidation losses of group members are not deductible from consolidated income. Losses incurred by the group cannot be used by a member of the group after leaving the consolidated group of taxpayers.

### **Losses**

#### **Ordinary losses**

From 1 January 2017 losses incurred in tax periods starting from 1 January 2007 may be carried forward indefinitely (before 2017 a 10-year limit applied). In tax periods from 1 January 2017 until 31 December 2020, however, the set-off of losses may reduce the tax base in the respective periods by no more than 50%.

There is no carry-back of losses.

### *Capital losses*

As a general rule, capital losses from the alienation of depreciable assets and inventory are fully deductible. However, losses from the alienation of depreciable assets (including intangible property) are deductible in equal instalments over the remaining useful life of the asset, which is calculated as the difference between its useful life and the period of use prior to the alienation.

Capital losses from the assignment of trade debtors are generally deductible. In the case of assignment of a trade debt before its maturity, the amount of the deductible loss may, however, not exceed the amount of fictitious interest calculated in accordance with the thin-capitalisation rules on received income and for the period between the date of assignment and the due date. In the case of debts assigned after their due date, the capital loss is fully deductible. An amount equal to 50% of the loss is deducted at the date of assignment; the remaining 50% is set off after the expiration of 45 days following the day of assignment.

Capital losses from the alienation of securities issued under domestic or foreign law may be set off against capital gains of the current year from the alienation of securities or carried forward under the general rules. However, a distinction must be made between listed securities and other securities. In general, capital losses from one category may not be set off against capital gains from the other category. However, security brokers may set off capital gains from other securities against capital loss from listed securities.

### **Withholding taxes**

#### *Dividends*

Dividends paid to non-resident companies directly are subject to a 15% final withholding tax on their gross amount, unless a treaty provides otherwise.

The same applies to interest that has been reclassified as a dividend under the thin-capitalisation rules.

Please note that gross dividends and other profit distributions by resident companies to other resident companies are subject to a 13% withholding tax. The taxable base for withholding tax is reduced by the amount of dividends received by the distributing company from other companies and/or distributed to non-residents.

#### *Interest*

Interest not connected to a permanent establishment is subject to a 20% final withholding tax on the gross amount, unless a treaty provides otherwise. However, irrespective of attribution to a permanent establishment, interest on state and municipal securities is taxed at the general rate of 15%.

#### *Royalties*

Royalties not connected to a permanent establishment are subject to a 20% final withholding tax on their gross amount, unless a treaty provides otherwise.

#### *Other*

Income from the alienation of immovable property, and of shares in property companies (i.e. companies more than 50% of whose assets consist of immovable property located in Russia), except for listed securities, are subject to a final withholding tax. Tax liability also arises for income from the alienation of derivative financial instruments in respect of shares in such property companies. However, if the shares or the derivative financial instruments are listed on a foreign stock exchange, income from trading on the foreign stock exchange is not taxed.

The tax is levied on the gross sale proceeds at a rate of 20%. Alternatively, the taxpayer may elect to be taxed at the general rate of profits tax on the gain (i.e. the gross proceeds less the acquisition cost and expenses connected to the sale), in which case the non-resident must provide the withholding agent with documentary proof of the costs and expenses prior to the payment.



Rental and leasing income not connected to a permanent establishment from movable or immovable property used in Russia is subject to a 20% final withholding tax on the gross amount (on the net amount in the case of certain lease payments).

Income from the use or rental of (freight) ships, aircraft and other transport vehicles used in Russia is subject to a 10% final withholding tax on the gross amount. The same applies to income from transport and related services. Transport services include all traffic activities performed within Russia or if the transport begins or ends in Russia.

Penalties and other similar payments derived from domestic sources due to the failure of the Russian partner or authority to meet contractual or other obligations are taxed at the rate of 20%. The tax is withheld at source and is final.

In addition, the law contains a catch-all provision covering other income similar to that dealt with in the preceding paragraphs. If dividends, interests, royalties and other payments are paid to a foreign company, the tax rate is determined by the double tax treaty between the two countries.

#### Thin capitalisation

Interest paid by a Russian resident company under loans qualified as controlled debts is subject to thin-capitalisation rules. The debt is treated as controlled in the following situations:

- Where a loan is given by a foreign company or an individual that is related to a Russian borrower under the transfer-pricing rules and that directly or indirectly participates in the capital of the borrower (i.e. the minimum share of participation of a foreign entity increased to 25% compared to the 20% previously applicable);
- Where a loan is provided by a company or individual that is a related party to the abovementioned foreign company or individual;
- Where a loan is provided by a third party but guaranteed or otherwise secured by any of the abovementioned companies or individuals.

Debt obligations to foreign fellow subsidiaries are included in the scope of thin-capitalisation rules.

If a loan is treated as a controlled transaction, the respective interest is only partially deductible where the debt-equity ratio exceeds 3 to 1 (12.5 to 1 for companies engaged in banking or leasing activities). The excess is reclassified as dividend and taxed accordingly. The domestic classifications are also relevant in international contexts.

#### Transfer pricing

With effect from 1 January 2012, extensive new transfer-pricing rules apply, which cover both domestic and international transactions. The new rules provide that taxpayers must inform the tax authorities of any controlled transactions (transactions between related parties) made in a given calendar year. In addition, the rules provide an extensive list of what constitutes a 'related party', including:

- Legal entities if one directly or indirectly has a participation of 25% in the other
- An individual and a legal entity if the individual directly or indirectly has a participation of 25% in the legal entity and
- Two legal entities if a third legal entity directly or indirectly has a participation of 25% in both of them

Controlled transactions include, *inter alia*:

- Cross-border transactions between related parties
- Domestic transactions between related parties exceeding RUB 1000 million in a calendar year
- Transactions with entities registered in certain offshore jurisdictions, if the income from such transactions exceeds RUB 60 million within a calendar year
- Third-party, cross-border transactions of goods traded on global commodity exchanges such as oil and oil products, ferrous and non-ferrous metals, mineral fertilisers, precious metals and stones if the income from those transactions exceeds RUB 60 million per calendar year
- Transactions that may be treated by the court as controlled if they aim at concealing other controlled transactions

Transactions that fall outside the scope of the new rules (i.e. 'uncontrolled') include:

- Transactions within a consolidated group of taxpayers and
- Transactions between entities (i) registered in the same region of Russia; (ii) having no branches in other regions or abroad; (iii) paying no profits tax in other regions of Russia; and (iv) incurring no losses
- Interest-free loans between Russian related parties (from 1 January 2017)

The transfer-pricing rules provide for five methods to determine the fair market price (the comparable uncontrolled-price method, the resale-price method, the cost-plus method, the comparable-profits method and the profit-split method). The previous 20% safe harbour for deviations of the agreed price from the fair market price is abolished.

An Advance Pricing Agreement whereby taxpayers may enter into an agreement with the tax authorities for the determination of binding transfer prices is only available to qualifying 'large' taxpayers. Foreign legal entities are not allowed to enter into such agreements.

The tax authorities may check the following taxes under transfer pricing audits: profits tax, personal income tax, mineral resources extraction tax and VAT.

### Controlled foreign company (CFC) rules

Undistributed profits of foreign companies and non-corporate structures controlled by Russian tax residents ('controlling parties') may be subject to tax in Russia at 20% rate if the CFC is controlled by a legal entity and at 13% if it is controlled by an individual.

Legal entities and individuals are considered controlling persons if:

- Their shareholding in the foreign company/structure exceeds 25% or
- Their shareholding in the foreign company/structure exceeds 10%, and the total shareholding of all Russian-resident shareholders (i.e. resident individuals and legal entities) in this CFC exceeds 50% or
- They exercise, or have the power to exercise, a decisive influence on decisions regarding the distribution of profits of the foreign company/structure, irrespective of the legal basis for this control

Profits of a CFC will not be taxed in Russia if certain conditions are met, including the following:

- The jurisdiction of which the CFC is a tax resident (i) has concluded a double tax treaty and exchanges tax information with Russia and (ii) taxes the income of the CFC at an effective tax rate equal to at least 75% of the average corporate tax rate in Russia
- The CFC's income from 'passive' operations amounts to not more than 20% of its total income. Income from 'passive' operations means dividends, interest, royalties / licensing payments, income from the provision of consulting services or any other similar income
- Active foreign holding / sub-holding companies

CFC profits are not subject to tax in Russia if they are below RUB 10 million (this threshold was RUB 50 million in 2015 and RUB 30 million in 2016).



Taxpayers are liable to notify the tax authorities about:

- Participation in foreign companies (if their direct or indirect interest is above 10%), as well as on the incorporation of foreign non-corporate structures or on control over such structures
- Participation in a CFC

#### Other significant anti-avoidance rules

##### *Beneficial ownership concept*

With effect from 1 January 2015, the concept of beneficial ownership is introduced to Russian legislation.

A foreign company is deemed to have an actual right to receive income and is thus entitled to the tax treaty benefits if that company is the direct beneficiary of that income.

The beneficial owner of income for the purposes of application of the Tax Code and double tax treaties is defined as (i) a person (or an establishment of a foreign structure without a legal personality) who, through direct or indirect participation or control of a company has the right to use and/or dispose of the income, or (ii) a person (or an establishment of a foreign structure without a legal personality) on whose behalf another person (or an establishment of a foreign structure without a legal personality) is authorized to use and/or dispose of such income.

A 'look-through' approach applies with respect to determining the beneficial owner of income if the recipient of the income is not the beneficial owner. Following this approach where the actual beneficial owner (the indirect owner) is a Russian resident, the provisions of the Russian Tax Code should apply, i.e. withholding tax rates on dividends payable to Russian companies may apply. If, however, the beneficial owner is a foreign company, the Russian taxpayer may apply the tax treaty between Russia and the country of residence of the beneficial owner (the indirect owner) to the payment, provided proper documentation is submitted to the Russian taxpayer.

#### Tax incentives

##### *Accelerated depreciation*

A deduction equal to 10% (30% for Groups 3 to 7) of the acquisition costs of fixed assets or the cost of modernisation, reconstruction or repair of equipment is available in the year of acquisition.

Certain agricultural businesses as well as companies that are located in an industrial, tourist and recreational special economic zone or are a participant of a free economic zone are entitled to apply a special coefficient, up to 2, to general depreciation. In the case of leased fixed assets (financial leasing), the general depreciation rate may be increased up to threefold.

##### *Investment credit*

An investment tax credit is granted to companies that fulfil one of the following requirements:

- The company conducts research, development or evaluation studies, or carries out modernisation of its production facilities for the purpose of creating jobs for disabled persons, protecting the environment from industrial pollution or increasing the energy-efficiency of a production process
- The company's business involves developing new equipment, new or improved technology or creating new kinds of raw and other materials
- The company's business contributes significantly to the socio-economic development of a region or provides highly valuable services to its population
- The company carries out a state defence order or
- The company invests in the creation of certain energy-efficient objects



In the case of the first and last of these situations, the credit amounts to 100% of the value of the equipment acquired and used for the qualifying purposes. In the case of the others, the amount of the credit is fixed by an agreement between the appropriate regional authority and the company concerned. In general, the investment credit may be granted for a period of one to five years.

### *Special economic zones*

Companies operating in an industrial or tourist and recreational special economic zone (SEZ) are entitled to accelerated depreciation at double rates.

For companies that are residents of SEZs, the reduced corporate income tax rate (not more than 13.5%) may be established by the regions, provided separate records are held for income (and expenses) received from the activity in the territory of an SEZ and income (and expenses) received from the activity outside the territory of an SEZ. The corporate income tax rate payable to the federal budget is 0% until 2018 (for companies resident in technology development SEZs), and until 2023 for companies resident in tourism and recreational SEZs, provided the activity in the territory of an SEZ is accounted separately.

Companies operating in an industrial special economic zone (SEZ) are entitled to accelerated depreciation at double rates. For companies operating in an innovation SEZ, the rates of social security contributions are reduced for 2012-2019 as follows:

- Contributions to the State Pension Fund: 8% for 2012-2017, 13% in 2018 and 20% in 2019
- Contributions to the Social Security Fund: 2% for 2012-2017 and 2.9% for 2018-2019
- Contributions to the Federal Medical Insurance Fund: 4% for 2012-2017 and 5.1% for 2018-2019.

Residents in any SEZ are exempt from corporate property tax in respect of assets used in these SEZs for the first 10 years and from land tax for the first five years from the moment of recording these assets on their balance sheets.

Additional incentives may be introduced in particular SEZs. For example, qualifying companies making investments in the Kaliningrad Region SEZ (in particular, under an obligation to make an investment in amount of RUB 150 million or more) are exempt from corporate income tax and corporate property tax for the first six years of the investment project and will pay these taxes at rates reduced by 50% during the following six years.

### *Other*

Qualifying export-oriented information technology companies may write off directly the expenses for computer hardware in the year of acquisition (instead of the normal depreciation rules).

The taxpayer is entitled to deduct expenditures on the acquisition of tools, appliances, instruments, devices, laboratory equipment, special clothing and other personal and collective protective equipment as stated in the legislation of Russia, and other assets which are not amortisable assets, within more than one reporting period, taking into consideration the useful life of such property and other economic characteristics.

Income from the sale of property obtained without consideration may be reduced by the market value of the property recorded in the taxpayer's accounts at the moment of the receipt of the property free of charge.

### **Tax rate**

The general rate of corporate income tax is 20%, of which three-twentieths is paid to the federal budget and seventeen-twentieths to regional budgets.

### Assessment procedure

Profits tax is calculated in a self-assessment procedure on a currently adjusted basis for each reporting period. The taxable income of a reporting period is the cumulative amount of income since the beginning of the year; the tax liability is then computed as the profits tax on the cumulative income, reduced by the payments for the preceding quarters of the tax year.

### Returns and payments

#### *Tax returns and assessment*

In general, annual profits tax returns must be filed no later than 28 March of the year following the tax year. In addition, the taxpayer is obliged to file a simplified tax return for each reporting period (i.e. quarter, half year and nine months). A taxpayer may choose to report income on a cumulative monthly basis (i.e. report the income of the first month, the first two months, the first three months etc.).

Irrespective of the reporting period chosen, the deadline for the tax return is the 28th of the month following the reporting period. The same deadline applies to withholding agents with respect to the withholding tax on items of income paid to residents and non-residents, and with respect to profits tax on other taxable income paid to non-residents. Tax returns can be filed electronically.

#### *Payment of tax*

A corporate taxpayer is obliged to make monthly advance payments equal to one-third of the tax liability of the preceding quarter. Advance payments for the first quarter of the current tax year are based on the tax liability of the last quarter of the preceding year. The taxpayer may elect to calculate and report taxable income and to pay the final profits tax owed on a monthly (actually earned) basis, provided that the local tax office has been informed before 31 December of the preceding year. In such cases, amounts of the advance payments must be calculated on a cumulative total from the beginning of the tax period up to the end of the relevant month.

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

If the average turnover calculated on a quarterly basis does not exceed RUB 10 million in each of the four preceding quarters, or the taxpayer is a non-resident legal entity operating through a permanent establishment in Russia, the taxpayer is released from the obligation to make monthly advance payments. In such a case, profits tax is paid on a quarterly basis.

For withholding taxes levied on dividends and interest derived from state and municipal securities, the tax withheld must be paid to the local tax office not later than the next day after the date of the income payment.

Penalties for failure to file returns or make payments on time and also for underpayments are generally 20% of the relevant tax, or 40% if the default is deliberate, plus fixed penalties. Criminal sanctions may also apply.

### Appeals

A taxpayer has the right to challenge any decision of the tax authority before a higher-level tax authority or in court. The decision of the tax authority may be challenged in court only after challenging it before the higher-level tax authority.

### Value added tax

The Russian value added tax (*nalog na dobavlenuyu stoimost'*) is similar to that operating in the European Union and is levied on supplies of goods and services at all stages of supply. Input VAT is deductible in computing the final tax liability so that, in effect, only the value added is taxed.

### Taxable entities

For VAT purposes, the definition of taxable persons not only includes legal entities established under Russian law and non-resident entities engaged in a business in Russia, but also sole proprietorships. An exemption is available for small businesses.

### Taxable activities

VAT is levied on the domestic supply of goods and services and on the importation of goods. Certain services provided abroad to a Russian company or a permanent establishment located in Russia are deemed to be provided in Russia and are taxed under the reverse-charge mechanism. Under the mechanism, a Russian purchaser of services accrues and pays VAT. The purchaser is entitled to deduct the amount of tax due, subject to the general conditions. The services subject to the reverse-charge mechanism include consulting, legal, accounting, engineering, advertising, marketing, software development and R&D services.

For VAT purposes, the taxable amount is the sales price, excluding the VAT itself, but including any excise tax, if applicable. In the case of importation, the taxable amount includes the customs value, customs duties and fees, and excise tax. If a taxable person makes both taxable and exempt supplies, they must be recorded separately. Certain electronically supplied (internet delivered) services (e.g. provision of IP rights for the computer software, provision of advertising services in the Internet) should be deemed to be supplied in Russia and thus subject to Russian VAT.

### Exempt supplies

Exemptions include the supply of certain medical goods and services, sale of dwelling houses and land, public transport services, educational services rendered by non-profit licensed establishments, banking services rendered by banks, insurance services rendered by insurance companies and the supply of legal services by lawyers who are members of bar associations.

### Standard, reduced and zero rates

In 2018 the standard rate of VAT is 18% and it will be increased to 20% starting from 1 January 2019. A reduced rate of 10% applies to basic foodstuffs, medicines, children's clothes and periodicals. A zero rate applies to exports of goods and international transport services.

### Registration

An exemption from VAT may be applied for if sales do not exceed RUB 2 million in the previous three months. A foreign entity may not register for VAT purposes except when it provides electronic services subject to Russian VAT.

### Returns and payment

The VAT reporting period is the calendar quarter. A VAT return should be submitted, and the tax should generally be paid in three equal instalments, by the 20th day of each of the three consecutive months following the reporting quarter.

Any excess of input VAT over output VAT should be reimbursed to the taxpayer by the tax authorities or offset against the taxpayer's future VAT or other federal tax liabilities. Generally, VAT reimbursement or offset should only be made after the tax authorities have undertaken an in-house audit.

### Net worth tax

Corporate property tax (*nalog na imushchestvo organizatsii*) is levied on the worldwide fixed assets of resident companies, including banks and insurance companies, as well as on the fixed assets of non-resident companies carrying on a business through a permanent establishment or owning immovable property located in Russia.

There are certain exemptions for associations of lawyers, ships registered in the Russian International Registry of Ships, scientific institutions and establishments, and companies operating in a special economic zone. The tax is not levied on land (which is subject to land tax) and forests.

From 1 January 2018, at the option of the particular Russian region, movable property reported as fixed assets on the balance sheet of a company as of 1 January 2013 is exempt from corporate property tax as from that date, except for the property received as a result of reorganisation or liquidation of the company or obtained from an interdependent party. This exemption applies only in those regions of Russia that have adopted it (i.e. it is optional). From 1 January 2018, companies are exempt from corporate property tax on new energy-efficient buildings for three years from the date of registration of such property with the tax authorities. Companies may claim the exemption only if the relevant region of Russia has adopted the necessary legislation.

Fixed assets included in depreciation groups 1 and 2 (assets with a useful life of less than three years) are exempt from corporate property tax.

Corporate property tax is a regional tax, which is regulated at the federal level. The maximum rate is determined by federal law (currently 2.2%), but the actual rates may vary from region to region.

Corporate property tax is imposed on the average aggregate annual written-down value of fixed assets as reported on the balance sheet of a company or permanent establishment. If a non-resident company does not have a permanent establishment with a separate balance sheet in a region, it is taxable on any immovable property located in that region.

The taxable period is the calendar year, the reporting period is a quarter. The terms for advance payments and for the final tax liability are established by the regions.

### Mineral extraction tax

This tax (*nalog na dobychu poleznykh iskopayemykh*) is payable by extractive industries and is the second largest revenue raiser among federal taxes.

Mineral extraction tax (MET) is charged on legal entities and sole proprietors in respect of the extraction of minerals, including oil and gas, from the subsurface and from production waste. In order to be permitted to extract minerals commercially, an operator must first obtain an appropriate licence.

MET is determined on the basis of either the physical quantity of the mineral resources extracted or their physical quantity and value. Value is determined based on the quantity of minerals extracted and their selling price, net of VAT, customs duties and levies and transportation expenses. If no sales of a particular mineral resource were made during a tax period, taxpayers should calculate the value of the extracted minerals based on their production cost. The value should be calculated based on the tax-accounting records maintained for profit-tax purposes and the procedures provided by tax legislation.

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

The rate of tax varies according to the type of resource. For oil, the MET rate for 2018 is RUB 919 per tonne. The rate is adjusted using a coefficient reflecting changes in the world oil price and RUB/USD fluctuations. A special regressive coefficient applies for blocks depleted by more than 80%.

A 0% MET rate per tonne applies to:

- Oil extracted from a specific hydrocarbon deposit that is part of the Bazhenov, Abalak, Khadum or Domanik formations and
- Superviscous oil extracted from sites containing oil of a viscosity of 10 000 mPa s or more

MET is assessed monthly, with payment due within 25 days following the reporting month. Tax returns should be submitted before the end of the month following the reporting month.

### Capital duty

The qualifying issue of securities, such as shares and bonds, for circulation in Russia is subject to a state duty payable by the legal entity that issues the securities. The duty is not payable on the issue of shares upon formation of a company or upon a reorganisation of a company.

The rate is 0.2% of the nominal value of the issued securities, but not more than RUB 200 000. The duty is deductible for corporate income tax purposes of the issuer.

## 7. PERSONAL TAXATION



### Income tax

#### Territoriality and residence

Individuals who are resident in Russia are subject to income tax (*nalog na dokhody fizicheskikh lits*) on their worldwide income, whereas the tax liability of non-residents is limited to certain types of income from Russian sources. An individual is deemed to be a resident of Russia for income tax purposes if he or she is physically present in Russia for at least 183 days during any 12-month period. Russian residents who make temporary stays abroad of less than six months for medical or educational purposes are still regarded as being physically present in Russia.

#### Persons liable

General and limited partnerships are taxable entities subject to corporate income tax. Simple and silent partnerships are transparent, and their income is taxed in the hands of the partners.

#### Taxable income

Russia applies the worldwide-income principle in taxing its residents. The most significant feature of the income tax system is that practically all types of income are subject to tax at low flat rates.

The law lists the following categories of taxable income:

- Dividends and interest
- Payments under an insurance contract
- Royalties
- Rental income
- Income from the alienation of property
- Employment income and income from independent activities, including business income
- Private pensions funded by employers, scholarships and other similar benefits
- Income from transportation and
- Income from the use of pipelines, power lines, data transfer and other similar services

As a rule, income tax is withheld at source at the time of payment. However, in the case of business and professional income, income tax is levied by assessment. This procedure also applies in other cases if the tax is exceptionally not withheld at source, e.g. in the case of income paid in kind, or if income is paid by a person not qualifying as a withholding agent, or in the case of foreign-source income.

At the end of the taxable period, a taxpayer whose income was not taxed by final withholding is obliged to declare his or her worldwide income for assessment. The same applies to taxpayers who claim deductions or allowances; in that situation any tax withheld is credited against the final tax liability and the taxpayer is eligible for a refund if the tax withheld exceeds his or her final tax liability on the aggregate income. Only a limited number of deductions and allowances are granted; these are available only in respect of income taxable at the rate of 13%.

The most important exemptions include:

- Certain types of interest
- State pensions, certain social security benefits and payments received under mandatory insurance and long-term insurance contracts
- Bonus shares due to the increase of capital out of retained earnings and
- Certain capital gains

**The family unit**

Spouses are taxed separately on their income.

**Taxation of employment income**

Salaries, wages and any other remuneration for employment under an employment contract are subject to income tax at the general rate of 13%.

Although employees may not deduct any expenses, reimbursements of expenses, e.g. for travel or work-related relocation, are not taxable. Per diem allowances are only subject to tax if they exceed the limits established by the federal government. Redundancy payments are exempt.

Amounts received from the employer as a compensation for the employee's educational expenses and mortgage interest payments are exempt from tax.

**Benefits-in-kind**

As a rule, benefits-in-kind are taxable as employment income. The general valuation rules of the law apply to the valuation of benefits. Accordingly, goods and services are valued at the market price of similar goods and services, increased by the appropriate amount of VAT and excise duties.

The following are the most important benefits listed in the law as taxable:

- Expenses incurred by the employer for the benefit of his employees, in particular the cost for goods, works and services or of property rights with respect to housing, as well as the cost of meals and drinks (except for seasonal agricultural workers), recreation, continuing education in the interest or on behalf of the employee
- The (negative) difference between the price of goods or services sold to employees and the market price of those goods and services usually charged to third parties, if the seller and the buyer are related parties;
- Contributions paid by the employer on behalf of his employees for insurance schemes other than qualifying pension, health and life insurances
- The interest advantage on loans granted by the employer or another company or entrepreneur (except for benefits from operations with credit cards and loans granted for purchase of housing premises) to the extent that the rate charged is lower than two-thirds of the central bank refinancing rate or 9% per year for foreign-currency loans

Although the law does not explicitly mention the private use of a company car made available by the employer, the benefit is taxable on the basis of the general rule. No specific regulations are provided for the taxation of share-option plans. However, the grant of share options may constitute a taxable event if the options are qualified as property rights and consequently as a benefit-in-kind.

**Pension income**

State pensions, payments on the basis of private pension plans and payments from private pension funds on the basis of contributions by an individual himself or herself are exempt from tax. Payments under other voluntary pension schemes (e.g. those based on contributions by an employer or by another individual) are taxable. The income tax is generally withheld at the time the pension is paid to the recipient.

No personal income tax is withheld on pensions payable to individuals under non-state pension insurance agreements signed by their employers with licensed non-state pension funds, provided such income tax was withheld by the employers upon transfer of pension contributions before 1 January 2005.

**Director's remuneration**

There are no special rules on director's remuneration derived by Russian residents; the ordinary rules on employment income apply.

### *Salary/withholding tax*

The employer is responsible for withholding tax at 13% from payments of salary or other remuneration.

### **Taxation of personal business income**

An individual taxpayer deriving income from business activities is generally taxed on the profit from these activities, which is the difference between earnings from such activities and expenses related thereto. In general, the rules applicable to corporate income tax apply when determining the deductible expenses. However, a sole proprietor may instead opt for a lump-sum deduction of 20% of the gross income received, provided that he or she has been registered as such.

For income derived from a profession, the taxable base is the difference between gross receipts and expenses related to such activities. Instead of actual expenses, for certain types of professional income, a taxpayer may apply the following lump-sum deductions (expressed as percentages of gross income):

- 40% for income derived from the creation of classical music and musical works of a similar character
- 30% for income derived from the creation of cinematographic films (including videotapes), the activities of photographers, designers, architects etc, as well as income from discoveries, inventions and creations of industrial samples received within the first two years of use of the right
- 25% for income derived from the creation of music other than that qualifying for the 40% deduction and
- 20% for income derived from the creation of literary and artistic works (e.g. theatre, cinema, stage and circus performances), performance of artistic activities, and the creation of scientific works and designs

Business and professional income is taxed in an assessment procedure. Any tax withheld by the person paying the income is credited against the final tax liability.

### **Taxation of investment income**

Dividends derived from resident companies are subject to a 13% final withholding tax. Foreign dividends are taxed by assessment at the same rate. No deductions or allowances are granted from dividend income.

Interest is generally taxed by way of withholding. If the tax is not withheld at source, it is levied by assessment. In both cases, the rate is 13%. Interest on mortgage bonds issued prior to 1 January 2007 is taxable at a 9% withholding tax rate.

No tax is levied on interest derived from state or municipal securities.

Interest on bank deposits is generally exempt. However, a 35% withholding tax is levied to the extent that the interest exceeds:

- The central-bank refinancing rate plus five percentage points for domestic-currency deposits or
- 9% per year for foreign-currency deposits

### **Capital gains**

Capital gains derived within the framework of a business are included in business income.

Income from the alienation of private property is not taxable, provided that a minimum holding period of five years is fulfilled. If the holding period is not fulfilled, the excess of the gross sale proceeds over RUB 1 million (for immovable property) or RUB 250 000 (for movable property) is subject to income tax at the general rate of 13%. The tax-exempt amounts apply on an annual basis to the total proceeds from the sale of property. The taxpayer must declare the income and calculate and pay the income tax to the authorities.

Instead of being taxed on the gross sale proceeds exceeding the exempt amounts, the taxpayer may opt for taxation of the net capital gain, which is determined as the difference between the sales price and all expenses incurred in the course of acquisition and the maintenance of property, including the acquisition cost.

Income from the alienation of shares in Russian companies held for a period longer than five years is exempt from personal income tax.

Income from the alienation of other securities and derivative financial instruments based on securities is generally taxable. The taxable base is the net capital gain, which is determined separately for each register of securities and derivative financial instruments as follows:

- Securities quoted on the financial market
- Securities not quoted on the financial market
- Derivatives quoted on the financial market
- Derivatives not quoted on the financial market

#### Allowances, tax credits and deductions

##### *Allowances*

Taxpayers whose cumulative income since the beginning of the year does not exceed RUB 350 000 are eligible for a child allowance (deduction) of RUB 1400 per month for the first and second child and RUB 3000 per month for each additional child. These allowances are granted only in respect of income taxable at the rate of 13%. The allowances must be deducted from the taxable base at the time the employer or other withholding agent pays the income. If the taxpayer has not applied for this exemption, it may be claimed at the time the taxpayer files the annual income tax return.

##### *Deductions*

Apart from expenses incurred in the course of acquiring business and professional income, personal deductions are granted only in respect of income that is taxable at the rate of 13%. The law requires documentary proof of the expenses incurred. Personal deductions are granted at the end of the taxable period at the taxpayer's request.

Expenses incurred in constructing or acquiring dwellings are deductible within a framework of a housing allowance, which is subject to a lifetime maximum of RUB 2 million (RUB 1 million for houses constructed or acquired before 1 January 2008). The allowance may be carried forward if not used in the taxable period. The housing allowance covers all payments, including the principal of mortgage loans, whereas all interest payments related to the construction or purchase of a house or residential premises are deductible in full.

The taxpayer may deduct his or her own educational expenses, as well as payments related to the education of his or her children. In the case of children, a maximum of RUB 50 000 per child applies, which may be divided between the two parents. For example, if an educational-expense deduction for a child is RUB 15 000 for one parent, the deduction for the other parent with respect to the same child cannot exceed RUB 35 000.

Medical expenses, including voluntary health-insurance premiums, incurred on behalf of the taxpayer and/or the taxpayer's spouse, children and parents are deductible within certain limits. Expenses for certain expensive types of medical care, as determined by the Government, may be deducted irrespective of the limit mentioned below.

The abovementioned educational and medical expenses (with the exception of the expenses for children's education and expenses for certain expensive types of medical care), and private pension contributions may not exceed in total RUB 120 000 per taxpayer per year. The law provides for a deduction of charitable contributions for income tax purposes, provided that they are paid to educational, cultural, scientific or medical institutions, as well as certain payments made to institutions providing sports education. The deduction may not, however, exceed 25% of the taxpayer's total income in a calendar year.



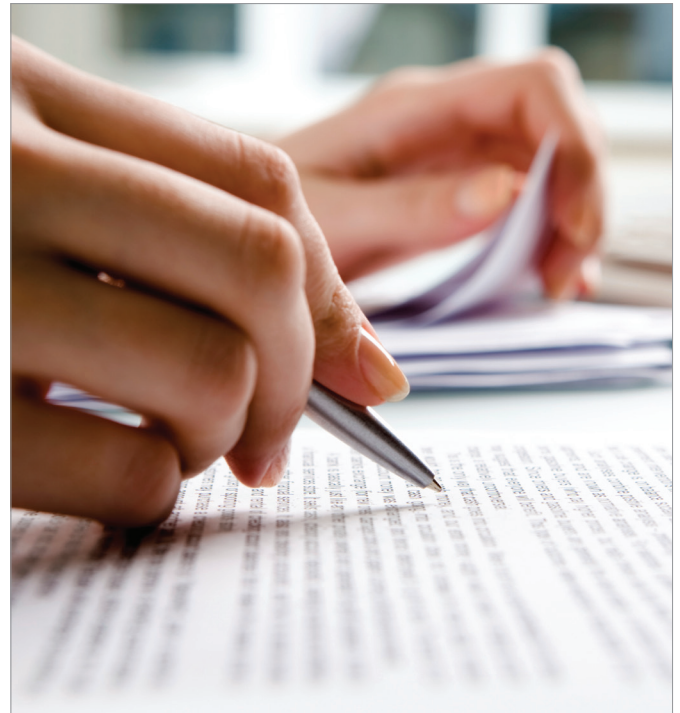
### Tax rates

The general rate of individual income tax is 13%, which applies to employment income, business and professional income, interest, royalties, income from immovable property and capital gains. The tax is generally withheld at source. In the case of business and professional income, the tax is levied by assessment.

Dividends paid to resident individuals from domestic and foreign sources are subject to a 13% tax, which is withheld at source if paid by resident withholding agents, and otherwise levied by assessment. Interest on mortgage bonds issued prior to 1 January 2007 is taxable by way of a 9% withholding tax.

A 35% withholding tax applies to interest on bank deposits, if taxable, and to the benefit-in-kind from a beneficial interest rate.

The withholding tax is generally final. However, any type of income subject to withholding tax at the 13% rate may be taxed by assessment at the end of the taxable period if so requested by the taxpayer in order to take advantage of the personal deductions and allowances.



### Non-resident individuals

Non-residents are subject to tax on their Russian-source income, including:

- Dividends and interest paid by resident companies and other legal entities, sole proprietors or permanent establishments of non-resident legal entities
- Payments under insurance contracts concluded with a Russian insurance company and capital gains from the disposal of debt claims if paid by resident companies and other legal entities as well as permanent establishments of non-resident legal entities
- Royalties if the underlying rights are used in Russia
- Rental income and income from the disposal of immovable property or movable property located in Russia
- Income from the disposal of shares and other securities, if the alienation takes place in Russia
- Employment income and income from independent services if the activities have been performed in Russia
- Directors' fees if the paying company or other legal entity is resident in Russia, regardless of the place where the functions are actually performed
- Pensions, scholarships and other similar benefits paid by resident companies or other legal entities or by permanent establishments of non-resident legal entities
- Income from transportation and related services supplied in Russia
- Income from the use of pipelines, power lines, data transfer and other similar services if the relevant facilities are located in Russia and
- Any income not previously mentioned if the relevant activity has taken place in Russia

The rate of income tax on dividends paid to non-resident individuals is 15%. All other income derived by non-resident individuals is taxed at a 30% rate.

The tax rate on employment income is 13% for residents. The tax rate for non-residents of salaries, wages and other remuneration is 30%. However, the rate of tax on the employment income of non-residents is also 13%, if the non-resident is:

- Working under the patent
- A highly qualified specialist
- A participant in the state programme to assist the voluntary resettlement in the Russian Federation of compatriots living abroad, as well as members of their families
- A crew member of ships flying the state flag of the Russian Federation
- A refugee or temporary asylum seeker on the territory of the Russian Federation

In general, the tax is withheld at source as a final tax; no deductions or allowances are available to non-residents. However, non-residents are taxed on the net basis in respect of the sale of securities and derivatives.

#### Returns and payment

The taxable period is the calendar year.

The individual income tax is in most cases withheld at source at the time of payment. Because the tax is final, the taxpayer is not obliged to file a tax return. In the following cases, however, income tax liability is calculated by way of assessment:

- Income from which no tax has been withheld either exceptionally or because the payer does not qualify as a withholding agent
- Income of sole proprietors, private notaries and other persons engaged in a private practice
- Income from the sale of property, securities and derivative financial instruments based on securities and
- Foreign-source income

The taxpayer may file an annual tax return if he or she claims deductions and allowances not taken into consideration in the computation of the tax base at source. Where actual expenses or other deductions are claimed, documentary proof must be provided.

The tax return is generally due on 30 April following the end of the taxable period. In the case of a termination of a business or professional activity, the taxpayer must file the tax return within five days of the termination.

Since 2 September 2010 tax returns may be filed electronically.

Tax assessments are made by the local tax authorities on the basis of tax returns.

#### Payment

Sole proprietors, private notaries and other persons engaged in private practice must estimate their business income for the following year and calculate the expected tax liability for the current year, one half of which is due on 15 July of the current year. The rest must be paid in equal amounts on 15 October of the current year and on 15 January of the following year. Adjustment must be made in the case of substantial changes in the expectations. The final tax levied by assessment is due by 15 July following the end of the taxable period.

Where income is taxed at source, the withholding agent must pay the tax to the authorities. For employment income, the tax liability arises on the last day of each month. Other income is taxed on the day of actual payment or handing over of benefits in kind to the taxpayer. The whole amount of tax must be withheld by the agent, unless it exceeds 50% of cash actually paid to the taxpayer. This rule is applicable whenever income is paid, irrespective of whether payment is in cash or in kind. Although the tax must be paid by the withholding agent, the recipient of income may also be held liable for it.

In the case of a termination of a business or professional activity or a contractual obligation, the tax liability is due within five days of the date of filing of the final tax return.

### Appeals

Procedures are the same as for companies.

### Inheritance and gift tax

There is no inheritance or gift tax in Russia. However, gifts of immovable property, vehicles and shares received from individuals other than close relatives (e.g. spouse, parent/child, grandparent/grandchild or sibling) are subject to income tax under the general provisions. Gifts received from individual entrepreneurs and legal entities are exempt up to RUB 4000 per calendar year. The excess is taxed at the general rates of income tax (13% for residents and 30% for non-residents).

Inheritances are exempt from income tax.

### Wealth tax

In principle, there is no wealth tax; however, individuals may be subject to land tax (see Chapter 8).



## 8. OTHER TAXES

### **Stamp duties/registration duties/transfer taxes**

There are no significant stamp duties.

### **Land Tax**

Land tax is a municipal tax payable by all individuals who own plots of land or possess them on the basis of certain *in rem* titles. The taxable base is the cadastral value of land as stated in the state land register as at 1 January of the relevant tax year. The tax rate depends on the purpose for which the land is used. The maximum rates are established at the federal level at 0.3% for agricultural land and land used for housing purposes and 1.5% for other types of land. Specific rates are set by the municipal authorities.

The taxable period is the calendar year. The tax should be paid to the tax authorities no later than 1 October of the year following the relevant tax period.

The amount of tax payable by individuals is assessed by the tax authorities.

With effect from 1 January 2015, individuals who have not received a tax assessment from the tax authorities are obliged to provide the tax authorities with the relevant information about immovable property owned by them. This information must be provided by 31 December of the year following the one for which the tax is due. Failure to notify the tax authorities may result in a penalty of 20% of the land tax liability.

### **Real estate transfer tax**

There is no tax on the transfer of movable property, including shares, bonds and other securities.

Transactions involving immovable property are subject to a state registration fee (duty). Its amount varies depending on the type of transaction and on whether individuals or legal entities are involved.

## 9. SOCIAL SECURITY CONTRIBUTIONS

### Employee and employer contributions

Social security contributions are due in respect of all employees, whether employed under employment contracts or civil-code contracts. Payments into the pension fund, social insurance fund and medical insurance funds (local and federal medical insurance) are paid entirely by the employer. There are no contributions at all from the employee.

Social contributions are paid by employers from payroll amounts and certain other benefits available under civil law contracts to all resident employees, including foreign nationals (except foreigners working outside Russia under an employment contract with a Russian employer).

Contributions are allocated to three funds – the state pension fund; the social insurance fund and the federal obligatory medical insurance fund.

### Exemptions

The list below details payments and benefits that are not subject to social security contributions:

- Payments to foreign citizens temporarily located in Russia and not holding temporary or permanent residence permits
- State social security benefits, including sick pay and maternity pay
- Severance payments (up to statutory limits and subject to certain rules) except compensation for unused holidays
- Fees for additional professional education, training and retraining of employees (subject to certain conditions)
- Reimbursement of business travel expenses
- Reimbursement of employees' mortgage-interest payments in respect of the acquisition or construction of a dwelling (subject to certain conditions)
- Reimbursable expenses incurred by an individual for work / services under civil-code agreements

### Contribution rates

In 2018, social security contributions are due at a consolidated rate of 30%. From 1 January 2018, the ceilings for employees' annual income for determining the social insurance contribution rates differ as between contributions payable to pension funds and social insurance funds. The ceiling for contributions to the federal medical insurance fund is abolished.

Contributions are allocated as shown in Table 3.

**Table 3**

Type of insurance contribution	Annual ceiling per employee	Rates on remuneration up to the ceiling	Rates on remuneration in excess of the ceiling
Pension insurance	RUB 1 021 000	22%	10%
Social insurance	RUB 815 000	2.9% / 1.8%*	-
Medical insurance	n/a	5.1%	5.1%

\* this rate applies to payments made to foreign citizens (excluding HQSs) and stateless persons who are staying in Russia on a temporary basis.

Reduced rates apply to agricultural producers, certain traditional farmers and taxpayers of special status who are involved in high-technology industries.

Salaries paid to Russian-resident individuals by non-resident employers without a permanent establishment in Russia and not registered with the Russian tax authorities are not subject to social contributions in Russia.

### Workplace accident insurance

Employers are also required to pay separate contributions into the social insurance fund to insure against accidents at work and occupational diseases, in addition to the above social security contributions. These contributions are payable for every member of staff, including foreign employees.

For these contributions, employers are divided into 32 classes depending on the level of potential professional risk related to the employer's industry and activities, with a specified rate for each class. Rates vary from 0.2% of the payroll for Class 1 to 8.5% for Class 32. The applicable rate is then levied on total earnings without any cap. Employers who employ mainly office workers are generally liable to the 0.2% rate.

### Returns and payment

Social security contributions are payable monthly, by the 15th day of the following month. Returns must be filed quarterly.

### Self-employed contributions

From 1 January 2018, self-employed individuals are subject to social security contributions on a minimum amount of RUB 9489. However, where the amount of income of a self-employed individual for the reporting period exceeds RUB 300 000, additional contributions are due.

### Contributions of sole proprietors to compulsory pension insurance

In 2018, sole proprietors are required to pay a fixed amount by way of CPI (compulsory pension insurance). The amount of the contribution is RUB 26 545 for a full year, unless the individual's earnings from business exceed RUB 300 000, in which case the contribution increases by 1% of revenues received in excess of this limit, but contributions are capped at RUB 212 360.

### Contributions of sole proprietors to compulsory health insurance

In 2018, sole proprietors must pay a fixed amount of RUB 5840 by way of compulsory health insurance.

## 10. MOORE IN RUSSIA

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## APPENDIX 1: DOUBLE TAX TREATIES

### Comprehensive double taxation treaties

Russia has comprehensive double taxation treaties with the following countries:

Albania	India	Norway
Algeria	Indonesia	Philippines
Armenia	Iran	Poland
Argentina	Ireland	Portugal
Australia	Israel	Qatar
Austria	Italy	Romania
Azerbaijan	Japan <sup>1</sup>	Saudi Arabia
Belarus	Kazakhstan	Serbia <sup>2</sup>
Belgium	Korea (North)	Singapore
Botswana	Korea (South)	Slovakia
Brazil	Kuwait	Slovenia
Bulgaria	Kyrgyzstan	South Africa
Canada	Lebanon	Spain
Chile	Latvia	Sri Lanka
China	Lithuania	Sweden
Croatia	Luxembourg	Switzerland
Cuba	Macedonia	Syria
Cyprus	Malaysia <sup>1</sup>	Tajikistan
Czech Republic	Mali	Thailand
Denmark	Malta	Turkey
Egypt	Mexico	Turkmenistan
Finland	Moldova	United Arab Emirates
France	Mongolia	Ukraine
Germany	Montenegro <sup>2</sup>	United Kingdom
Greece	Morocco	United States
Hungary	Namibia	Uzbekistan
Hong Kong	Netherlands	Venezuela
Iceland	New Zealand	Vietnam

### Notes

<sup>(1)</sup> Agreements concluded by the former USSR.

<sup>(2)</sup> Agreement concluded with the former Yugoslavia (as constituted by Serbia and Montenegro).

### Double tax treaties: air transport and shipping

Russia has only one treaty of this nature, concerning air transport services, and that is with Hong Kong.

### Double taxation treaties: estates, gifts and inheritances

Russia has no such treaties.



**Agreements for administrative assistance**

Russia has agreements for administrative assistance in the collection of taxes with the following:

Armenia	Kazakhstan	Tajikistan
Azerbaijan	Kyrgyzstan	Turkmenistan
Belarus	Mali	Ukraine
Georgia	Moldova	Uzbekistan

**Social security agreements**

Russia has bilateral social security agreements with the following:

Bulgaria	Latvia
Hungary	Spain

## APPENDIX 2: MOORE GLOBAL AROUND THE WORLD

Moore member firms may be found in 106 countries and territories around the world, with correspondent firms in another ten.

Albania	Dominican Republic	Liechtenstein*	Serbia
Argentina	Ecuador	Lithuania	Seychelles
Australia	Egypt	Luxembourg	Sierra Leone
Austria	El Salvador*	Macedonia	Singapore
Azerbaijan	Finland	Malaysia	Slovakia
Bahamas	France	Malta	South Africa
Bahrain	Germany	Mauritius	South Korea
Bangladesh	Gibraltar	Mexico	Spain
Belgium	Greece	Moldova	Sri Lanka*
Belize	Guernsey	Monaco	Suriname
Bermuda	Honduras	Mongolia*	Sweden
Bolivia	Hong Kong	Morocco	Switzerland
Brazil	Hungary	Netherlands	Taiwan
British Virgin Islands	India	New Zealand	Tajikistan*
Bulgaria	Indonesia	Nigeria	Thailand
Burundi	Iraq	Norway	Tunisia
Cambodia*	Ireland	Oman	Turkey
Canada	Isle of Man	Pakistan	Uganda
Cayman Islands	Israel	Panama*	Ukraine
Chile	Italy	Paraguay	United Arab Emirates
China	Japan	Peru	United Kingdom
Colombia	Jersey	Philippines	United States
DR Congo	Jordan	Poland	Uruguay
Costa Rica	Kazakhstan	Portugal	Venezuela
Croatia	Kenya	Qatar	Vietnam
Cyprus	Kuwait	Romania	Yemen
Czech Republic	Latvia	Russia	Zambia
Denmark	Lebanon	Saudi Arabia	Zimbabwe*

\*denotes a correspondent firm only

For more detail, see [www.moore-global.com](http://www.moore-global.com) under 'Locations'.

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