



Doing Business in
Russia



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Preface

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

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

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

January 2012

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1 Fact Sheet

Geography

Location	Northern Asia extending to Europe
Area	17,098,246km ²
Land boundaries	Ukraine, Belarus, Poland and the Baltic countries (to the west); Finland and Norway (to the north); Georgia, Azerbaijan, Kazakhstan, Mongolia, China and North Korea (to the south)
Coastline	The Arctic Ocean, the Atlantic Ocean and the Pacific Ocean
Climate	The country's climate varies considerably. The northern part of the country has an Arctic and sub-Arctic climate; southern areas are subtropical. The rest of the country has a temperate climate. During winter the temperature in Siberia can fall to -70°C; in the summer temperatures can reach 50°C in the desert region of central Asia
Terrain	Diverse, ranging from tundra in the north to semi-arid in the south, with a variety of forests and grasslands from west to east
Time zone	GMT +3 – GMT +12; Russia is divided into nine time zones

People

Population	143 million
Ethnic groups	Russia's population is diverse and includes over 180 ethnic groups. The majority of the population (80.91%) is Russian. Tatar and Ukrainian are the next largest groups
Religion	Orthodox Christianity, Islam
Language	Russian

Government

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

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

Political situation Current political situation is stable. State power in Russia is divided among the executive, legislative and judicial branches

Economy

GDP – per capita US\$16,700 (2011 est)

GDP – real growth rate 4.3% (2011 est)

Labour force 75.4 million (2011 est)

Unemployment 6.8% (2011 est)

Currency (code) Russian rouble (RUB)

2 Business Entities and Accounting

2.1 Business Entities

Investors may carry on business in Russia either through legal entities incorporated in accordance with the laws of the Russian Federation or through representative offices. Common forms of profit-making organisations are:

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

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

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

2.1.1 Companies

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

Open joint-stock company (OAO)

An OAO (public company) is the most appropriate organisational framework for large businesses with many shareholders.

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

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

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

An OAO is governed by its charter and this enables the general shareholders' meeting to elect an auditing committee (or an auditor) through which control is exercised over the company's financial and business activities.

Stricter requirements for reporting are in place for open joint-stock companies compared to other profit-making organisations. A public company must publish an annual report, including a balance sheet and a profit and loss statement.

Closed joint-stock company (ZAO)

The main requirements for establishing and operating an OAO also apply to a ZAO (a private company).

The distribution of shares in a ZAO is restricted to its founders and other authorised persons. The number of shareholders is limited to 50. The authorised capital must be at least RUB10,000.

Existing shareholders have priority to purchase shares sold by other shareholders.

Limited liability company (OOO)

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

An OOO is governed by its charter, which may prohibit members from transferring any of their shares to third parties.

Existing members generally have priority when shares are sold by other members. Shares are offered to members in proportion to their existing shareholding. The charter may confer pre-emptive rights on the shareholders or the company itself to buy shares either at a price offered by a third party or at a price determined in the charter.

Members of an OOO have the right to enter into an agreement governing their rights in relation to the company (shareholders' agreement). The agreement may impose obligations on the members in respect of the exercise of voting rights, disposal of shares and other actions.

The OOO must keep a register of members specifying the number of shares held and payment payments made for shares in respect of each member.

A member is entitled to leave the company at any time without the consent of the other members if this is stipulated by the charter. When this occurs, the member will be entitled to receive the value of their shares based on the accounts prepared for the last accounting period.

2.1.2 Partnerships

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

There are two main forms of partnerships in Russia.

General partnership

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

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

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

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

Limited partnership (partnership in commendam)

A limited partnership includes:

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

2.1.3 Representative offices

Neither representative offices nor branches are treated as independent legal entities. Therefore, most of the requirements for establishing legal entities do not apply when establishing a representative office or a branch.

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

The trait that distinguishes a branch from a representative office is that branches may engage in carrying on the principal business of the parent company whereas representative offices may not.

2.2 Accounting

2.2.1 Statutory accounting regulations

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

A company's accounting records and its financial statements must be prepared in accordance with a range of regulations including Federal and Civil Law, Russian accounting standards and a standard chart of accounts.

2.2.2 Accounting principles and assumptions

The Russian Government commenced a programme to harmonise national accounting standards (RAS) with International Financial Reporting Standards (IFRS) in 1998. Differences between RAS, which are tax oriented and IFRS remain and there is no date set for transition to IFRS.

The interpretation and treatment of principles under statutory requirements are often similar to IFRS in form, but quite different in substance. However, if RAS does not deal with a particular accounting issue, a company may develop an approach based on the IFRS and establish it as its accounting policy.

2.2.3 Statutory financial statements

Statutory financial statements must be prepared in the Russian language, denominated in Russian rubles and submitted annually to the tax and statistics authorities and shareholders.

A standard financial statement includes:

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

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

The accounting year coincides with the calendar year.

It is important to note that the structure and content of the financial statements are inconsistent with IFRS.

2.2.4 Requirements for independent audits

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

- The organisation is an OAO
- Annual revenue exceeds RUB400m or the amount of assets in the balance sheet at the accounting year-end exceeds RUB60m
- The organisation is a credit institution, insurance company, is involved in commodity or stock exchange, or is a joint-stock investment fund
- The organisation is quoted on a stock exchange or is a non-state pension fund.

3 Finance and Investment

3.1 Foreign Exchange Control

Federal Law sets out the following basic principles:

- Any currency transaction which is not specifically prohibited or regulated is permitted without restriction
- In cases of doubt, Federal Law is to be interpreted in favour of market participants, whether residents or non-residents.

Federal Law also sets out the procedure to be followed by resident individuals and legal entities wishing to open a foreign currency bank account with either a Russian or a foreign bank.

The law on currency regulation and control generally prevents Russian companies and individuals from carrying out foreign currency transactions between one another. Foreign currency transactions are permitted with foreign companies and individuals but restrictions apply.

Currency operations between residents

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

Currency operations between non-residents

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

Currency operations between residents and non-residents

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

For the purpose of Russian foreign exchange regulations, foreign companies and their branches and representative offices of foreign companies in Russia are treated as non-residents. Foreign currency transactions within the Russian territory may therefore only be performed through an authorised Russian bank.

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

3.2 Banking and Sources of Finance

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

3.2.1 The Central Bank of Russia

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

3.2.2 Commercial banks

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

3.2.3 Federal Financial Markets Service (FFMS)

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

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

3.2.4 Pensions and pension funds

Pension funds are comprised of an insurance portion and an accumulative portion. The insurance portion forms a pool for distribution to existing pensioners. The accumulative portion is specifically allocated to the contributor and is used to purchase approved investments.

The contributor may choose to keep the accumulative portion in the State Pension Fund or may transfer it to non-State funds. If the contributor keeps the accumulative portion in the State Pension Fund, they may appoint a fund manager otherwise their investments will be managed by the State bank, VneshEconombank.

The amount in a particular person's account will depend on their salary, the level of any voluntary contributions and the performance of their investments.

The FFMS regulates the fund management companies and non-government pension funds.

4 Employment Regulation and Social Security Contributions

4.1 Entry Visa and Work Permit Requirements

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

Russian citizens do not need a work permit. There are certain public roles that are reserved for Russian citizens.

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

Although Russian employers must obtain a work permit in respect of foreign employees, the process is made easier for “high-qualified specialists”. Such permits are valid for up to three years.

The high-qualified specialist is a foreign individual with skills, experience and qualifications (as determined by the employer) in their field of expertise and an entitlement to a salary of RUB2m or more.

4.2 Engagement and Dismissal

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

- Place of employment (including the company department)
- Start date of employment and term, if applicable
- Job function(s)
- Remuneration conditions
- Work time and vacations

- Remuneration and benefits for working under arduous, harmful and/or dangerous conditions
- Terms related to work characteristics
- Terms related to mandatory employee social insurance.

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

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

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

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

4.3 Working Hours

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

4.4 Paid Leave

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

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

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

4.5 Overtime

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

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

4.6 Trade Unions and Other Employee Representatives

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

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

4.7 Social Security System

The Russian social security system establishes the procedures for collecting premiums for mandatory medical, pension and social insurance, insurance against job-related accidents.

Practically all social security contributions are payable independently at rates determined for each fund (see Appendix 1).

The maximum total social security contribution rate is 30% – all paid by the employer. However, certain types of payments are exempted.

5 Taxation

5.1 Company Taxation

The corporate income tax system distinguishes between resident legal entities paying tax on their worldwide income and foreign legal entities paying tax on income derived through a permanent establishment (at the rate of 20%). Foreign companies are also subject to withholding tax on income from Russian sources not related to a permanent establishment at rates varying from 10% – 20% depending on the type of income and the mechanism for its calculation.

5.1.1 Corporate income tax

Generally, Russian legal entities are taxable on their worldwide profits. The tax base is calculated as total income less deductible expenses. There is a list of expenses not deductible for tax purposes; all other expenses are deductible provided they are valid business expenses, supported by relevant documentation and incurred with the aim of generating profits.

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

Corporate income tax is payable on a year-to-date basis. Companies may choose between paying monthly on the basis of actual profits or quarterly with monthly advance payments calculated on the basis of the profits of the previous quarter. Payments of corporate income tax must be made not later than 28 days from the end of expired reporting month or quarter. The final payment for the year is due by 28 March of the following year. The deadline for filing monthly, quarterly and annual returns is the same as the payment due dates.

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

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

5.1.2 Value added tax (VAT)

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

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

Some transactions and taxpayers (eg culture and art institutions) are VAT exempt. Exempt transactions include: insurance and banking operations (with some exceptions); leasing of premises located in the territory of Russia to foreign individuals and entities accredited in Russia (on the condition of reciprocity with the respective foreign country); trading of securities; sale of shares and unitised investments; certain medical equipment and services; and the import of certain technological equipment, related components and spare parts as determined by the Government.

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

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

5.1.3 Payroll taxes and social contributions

Employers pay the following insurance contributions on employees' remuneration:

- Contributions to the Pension Fund
- Contributions to the Social Insurance Fund
- Contributions to the Federal and Territorial Medical Insurance Funds
- Insurance contributions for mandatory social insurance against work-related accidents – current rates vary from 0.2% – 8.5% depending on the employer's activity.

Insurance contributions are payable on gross remuneration irrespective of the deductibility of this remuneration for corporate income tax purposes. Contributions are payable by the company acting as employer or customer.

Insurance contributions to the Pension Fund, Social Insurance Fund and Medical Insurance Funds are paid at fixed rates (the taxation scale is shown in Appendix 1). The total rate is 30%. Certain taxpayers benefit from applying lower rates, e.g. entities subject to special tax regimes and entities conducting a social activity, such as education, culture and medicine.

Please note that the upper threshold for social contributions is currently RUB512,000 per individual per year (this amount is subject to annual indexing by the Russian Government). Still, remunerations to the Pension Fund are still to be made even if over this sum, though at a lower rate of 10%.

Remuneration paid by companies to foreign individuals under employment agreements for the work in subdivisions of these companies located abroad as well as remuneration paid to foreign individuals under civil law contracts for work performed outside Russia is not subject to insurance contributions.

Companies acting as an employer or contractor must withhold and account to the tax authorities for personal income tax (PIT see 5.3.1) from the gross remuneration payable to its employees.

5.1.4 Corporate property tax

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

5.1.5 Other taxes

Mineral extraction tax

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

Rates vary from 0% – 17.5% and mineral extraction tax, rather than corporate income tax, is the basic tax for users of Russian subsoil.

Excise tax

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

Taxpayers can deduct statutory tax credits from the tax to be paid. In particular, excise tax on expenses incurred in connection with the purchase of goods that are subject to

excise tax, as well as excise tax on imported goods, is credited against excise tax due on sales.

Transportation tax

Entities in whose name transport facilities are registered are liable for transportation tax. Legal entities shall calculate by themselves and pay transportation tax for reporting periods (quarters) and for a tax period (calendar year). Rates depend on the capacity of those transport facilities. The law has determined specific rates; however these may be changed at the discretion of the subjects of the Russian Federation (but not by more than a factor of five).

State duty

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

Unified tax for the simplified taxation system

Some companies and individuals can apply the simplified taxation system. The key criteria for companies applying the simplified taxation system relate to: income (not more than RUB60m during the relevant year); share ownership (a maximum of 25% of the share capital may be owned by other legal entities); or assets (not more than RUB100m).

The simplified taxation system provides for the substitution of corporate income tax, personal income tax, corporate (personal) property tax and VAT (except for VAT payable when goods are imported into the customs territory of Russia) for a single tax.

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

Unified tax on imputed income

Companies and individuals carrying on certain activities (eg personal services and motor transport services) are liable for this tax. It substitutes for a number of taxes similarly to the simplified taxation system; however, the substitution is mandatory. If the taxpayer

also carries on activities that are not subject to unified tax, they will pay taxes on these activities in accordance with the generally established procedure.

The rate of tax and the tax base depend on the activities performed by the taxpayer. For example, the rate for personal services tax is 15% based on an amount (currently RUB7,500) imputed for each employee providing the services. The tax is paid quarterly.

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

5.2 Taxation of Foreign Companies

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

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

5.2.1 Corporate income tax

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

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

A foreign legal entity which carries out preparatory and/or auxiliary services on behalf of its holding company does not form a permanent establishment.

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

If the activity of the foreign company does not result in a permanent establishment, only certain aspects of its income are subject to Russian income tax (eg income from the

sale of real estate, international transportation, dividends, royalty and interest on loans). In these cases tax is withheld at source. The tax rate varies depending on the type of income received, eg dividends are taxed at 15%; interest on loans and royalties are taxed at 20%.

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

5.2.2 Value added tax (VAT)

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

5.2.3 Payroll taxes and insurance payments

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

5.2.4 Corporate property tax

Corporate Property Tax is charged depending on the tax status of the foreign company.

For companies acting through a permanent establishment the tax is imposed on the average annual value of movable and immovable property shown on the balance sheet as fixed assets.

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

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

5.2.5 Other taxes

Russian regulations regarding foreign companies have no significant differences compared to those for Russian companies.

5.3 Taxation of Individuals

5.3.1 Personal income tax

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

Non-residents are subject to a 30% tax on their Russian source income, except dividends from Russian entities which are taxed at 15%. Another exception is that remuneration payable to foreign employees who are considered to be high-qualified specialists (see 4.1) is subject to 13% tax.

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

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

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

Tax is usually withheld at the source of payment.

5.3.2 Personal property tax

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

5.3.3 Transportation tax

Individuals in whose name transport facilities are registered are liable for transportation tax, which is paid annually. Tax is paid on the basis of notifications received from the tax authorities. Rates depend on the capacity of those transport facilities. The law has

determined specific rates; however these may be changed at the discretion of the administrative divisions of the Russian Federation (but not by more than a factor of five).

5.3.4 Taxes for individual entrepreneurs

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

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

Individual entrepreneurs are liable to account for VAT and social insurance payments. Individual entrepreneurs are entitled to apply to use special tax regimes. For instance, they can pay a simplified tax (6% on gross income or 15% on profits) or a unified tax on deemed income (15% on this income).

Appendix 1

Applicable Insurance Contributions

Insurance contributions

2012

Remuneration up to RUB512,000	Pension Fund	22%
	Social Security Fund	2.9%
	Federal Medical Insurance Fund	5.1%
	Total	30%
Remuneration over RUB512,000	Pension fund – 10%	
	No other social contributions on amounts exceeding RUB512,000	

Appendix 2

Corporate Income Tax Rates

Rate	Income Type
0%	<ul style="list-style-type: none">• Interest on government and municipal bonds issued on or before 20 January 1997.• Interest on the government currency bond loan of 1999 issued in the novation of bonds of the internal government currency loan of series III for the purpose of adjustment of the USSR's internal currency debt and Russia's internal and external currency debt.• Dividends received by a Russian legal entity from another Russian legal entity provided the recipient owns not less than 50% of the shares of the distributing company for not less than 365 days continuously.• Dividends received by a Russian legal entity from a foreign legal entity provided that, in addition to the conditions applicable to receipt of dividends by a Russian legal entity from another Russian legal entity, the state of residence of the foreign legal entity is not included in the list of countries and territories (established by the Ministry of Finance) that benefit from a preferential tax regime and (or) which do not require the disclosure and provision of information relating to financial transactions.• Proceeds from the sale of shares in Russian entities subject to meeting certain legal conditions (to be applied only to shares purchased after 2010).
9%	<ul style="list-style-type: none">• Dividends received by Russian entities from Russian or foreign entities which do not satisfy the conditions for the 0% tax rate.
10%	<ul style="list-style-type: none">• Income of foreign companies unrelated to activities carried out in Russia through a permanent establishment such as amounts received from employment, maintenance or renting out of ships, aeroplanes, or other mobile transportation facilities or containers in connection with international traffic.
15%	<ul style="list-style-type: none">• Dividends received by foreign companies from Russian entities.• Interest on government and municipal securities.
20%	<ul style="list-style-type: none">• Income of Russian entities not indicated above and income of foreign companies not connected with activities carried on in Russia through a permanent establishment.

Appendix 3

The List of Excisable Goods

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

Appendix 4

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

Contracting State (the list is not complete)	Withholding Tax Rates		
	Dividends	Interest	Royalties
Austria	5% / 15% (a)	0%	0%
Canada	10% / 15% (b)	0% / 10% (c)	0% / 10% (d)
China	10%	10%	10%
Cyprus	5% / 10% (e)	0%	0%
Denmark	10%	0%	0%
France	5% / 10% /15% (f)	0%	0%
Germany	5% / 15% (g)	0%	0%
India	10%	0% / 10% (h)	10%
Italy	5% / 10% (i)	10%	0%
Japan	15%	10%	0% / 10% (j)
Luxembourg	10% / 15% (k)	0%	0%
Netherlands	5% / 15% (l)	0%	0%
South Africa	10% / 15% (m)	10%	0%
Spain	5% / 10% /15% (n)	0% / 5% (o)	5%
Switzerland	5% / 15% (p)	0% / 5% /10% (q)	0%
United Kingdom	10%	0%	0%
United States of America	5% / 10% (r)	0%	0%

Notes:

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

- f) The 5% rate applies to dividends when three conditions are fulfilled: (1) the effective recipient of the dividends must have invested at least €76,000 in the company that pays the dividends; (2) the recipient must be a company liable for corporate tax; and (3) the paying company must be exempt from corporate tax. The rate 10% when either condition (1) applies or conditions (2) and (3) apply. In all other cases the rate is 15%.
- g) The lower rate applies if the recipient of dividends owns at least 10% of the capital of the payer and has invested in the payer's capital at least DM160,000 or equivalent in RUB.
- h) Zero rate applies if the recipient of the interest is the government, a political subdivision, or a local authority of the other contracting state or the central bank of the other contracting state or other authorities or financial institutions which may be defined and agreed by the exchange of notes between the contracting states.
- i) The lower rate applies if the recipient of dividends owns at least 10% of the capital of the payer and has invested in the payer's capital an amount equivalent to at least US\$100,000.
- j) Zero rate applies to cultural royalties.
- k) The lower rate applies if the recipient of dividends owns at least 30% of the capital of the payer and has invested in the payer's capital an amount equivalent to at least ECU75,000.
- l) The lower rate applies if the recipient of dividends owns at least 25% of the capital of the payer and has invested in the payer's capital an amount equivalent to at least ECU75,000.
- m) The lower rate applies if the recipient of dividends owns at least 30% of the capital of the payer and has invested in the payer's capital an amount equivalent to at least US\$100,000.
- n) The 5% rate applies if the recipient of dividends has invested in the payer an amount equivalent to at least ECU100,000 and if the recipient of the dividends is a company that is exempt from tax on dividends in its state of residence. The 10% rate applies if only one of these conditions is met.
- o) Zero rate applies if the recipient of the interest is the other contracting state, its political subdivision or local authority, or if the interest is paid on long-term credit (seven or more years) granted by a bank or other credit institution which is a resident of the contracting state.
- p) The lower rate applies if the recipient of dividends owns at least 20% of the capital of the payer and has invested in the payer's capital an amount equivalent to at least CHF200,000.
- q) Zero rate applies to interest on the sale on credit of any industrial, commercial or scientific equipment or on the sale on credit of any goods by one enterprise to the other enterprise. The 5% rate applies to interest on bank loans.
- r) The lower rate applies if the recipient of dividends owns at least 10% of the capital of the payer.

Appendix 5

Personal Income Tax Rates

Rate	Income Type
9%	<ul style="list-style-type: none">• Dividends received by resident individuals.
15%	<ul style="list-style-type: none">• Dividends received by non-resident individuals.
30%	<ul style="list-style-type: none">• Income of individuals who are not tax residents in Russia (with certain exceptions).
35%	<ul style="list-style-type: none">• The value of any winnings and prizes received in any contests, games and other events conducted for the purpose of advertising goods, works, services (the value of winnings and prizes up to RUB4,000 is exempt).• Interest arising on bank deposits to the extent by which the rate exceeds:<ul style="list-style-type: none">• The refinancing rate established by the Central Bank¹, for the relevant period, for rouble deposits• 9% on foreign currency deposits.• The benefit from loans denominated in roubles in the form of a positive difference between 2/3 of the refinancing rate established by the Central Bank of Russia and the total interest charged in accordance with terms and conditions of the applicable loan agreement.• The benefit from loans denominated in foreign currencies in the form of a positive difference between 9% and the total interest charged in accordance with terms and conditions of the applicable loan agreement.
13%	<ul style="list-style-type: none">• All other types of income (including remuneration payable to a foreign employee who is a high-qualified specialist; the basic tax rate for resident individuals).

¹At the time of writing the refinancing rate is 8.25%.

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Notes



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