

Doing business and investing

in the Russian Federation

2013

sochi.ru[®]
2014 

OFFICIAL PROFESSIONAL
SERVICES PROVIDER

sochi.ru[®]
2014 
paralympic games



This guide has been prepared for general guidance on matters of interest only, and does not constitute professional advice. You should not act upon the information contained in this guide without obtaining specific professional advice. No representation or warranty (express or implied) is given as to the accuracy, timeliness or completeness of the information contained in this guide, and, to the extent permitted by law, PwC, its members, employees and agents accept no liability, and disclaim all responsibility, for the consequences of you or anyone else acting, or refraining to act, in reliance on the information contained in this guide or for any decision based on it.

Foreword



I am pleased to present the 2013 edition of PwC's annual publication *Doing Business and Investing in the Russian Federation*. As per tradition, the 14 chapters of this year's guide cover a wide range of issues for consideration when evaluating the prospects of operating or investing in a business in Russia. The guide touches on the main economic trends, the country's regulatory framework, dynamics in key industries, the broader investment climate and other criteria relevant to businesses and individual investors alike.

Russia has not been immune from the strong headwinds that have held back growth in the global economy over the last 4 years. Nevertheless, the Russian economy recovered quickly from the worst impacts of the global financial crisis and has continued to show reasonable growth. Further, with the continued growth of the middle class in the country and key major economies such as China, Japan and the USA starting to show stronger economic trends, there are reasons to be confident in expectations for Russia. For instance, this year's 16th PwC Annual Global CEO Survey showed that 66% of Russian CEOs are very confident about the prospects for revenue growth in the next 12 months compared to just 36% globally.

Despite a slight moderation in economic growth, Russia still outperformed most developed countries in 2012. According to the Russian Federal State Statistics Agency (Rosstat) the country's GDP grew 3.4% in 2012. In addition, the Ministry of Economic Development forecasts 3.6% growth for 2013. Inflation reached 6.6% in 2012, just above the 6.1% record low for 2011. Russia's unemployment rate is lower than in most developed countries and has held below 5.5% since May 2012. Growth of real disposable income and a rise in consumer spending are key drivers of economic growth in Russia. For example, retail sales grew 5.9% in 2012 while real disposable incomes increased 4.2%.

Thanks to its historically prudent budgetary policies, Russia benefits from a very robust national balance sheet. The country's international reserves are among the highest in the world and came to USD 537.6 billion as of 1 January 2013, according to the Central Bank of Russia (CBR), and the country's national debt is minimal by international standards, at just over 10% of GDP. Russia is also committed to open and fair market policies, something highlighted when the country became a fully fledged member of the World Trade Organization (WTO) in July 2012.

With a population of over 140 million, Russia is a 9th largest economy in the world, just marginally smaller than India. According to Rosstat data, foreign trade came to USD 864.7 billion in 2012, a year on year increase of 2.2%. Total exports totaled USD 529.3 billion and imports stood at USD 335.4 billion. According to Russian Federal Customs Service mineral products accounted for 71% of total exports in 2012 while 50% of total imports were machinery, equipment and means of transport. The European Union is the major trade partner of Russia and accounts for 49% of trade turnover, followed by APEC countries with 24%, of which 10.5% is with China. CIS countries account for 14.1%.

I should also mention that in 2013 Russia will host the first of a string of major sporting events. In July we will welcome the world to the 2013 Summer Universiade in Kazan, followed by the 2014 Winter Olympics in Sochi and the 2018 FIFA World Cup. These events will provide a significant contribution to the further economic and social development of Russia and feature in a special chapter of this year's report.

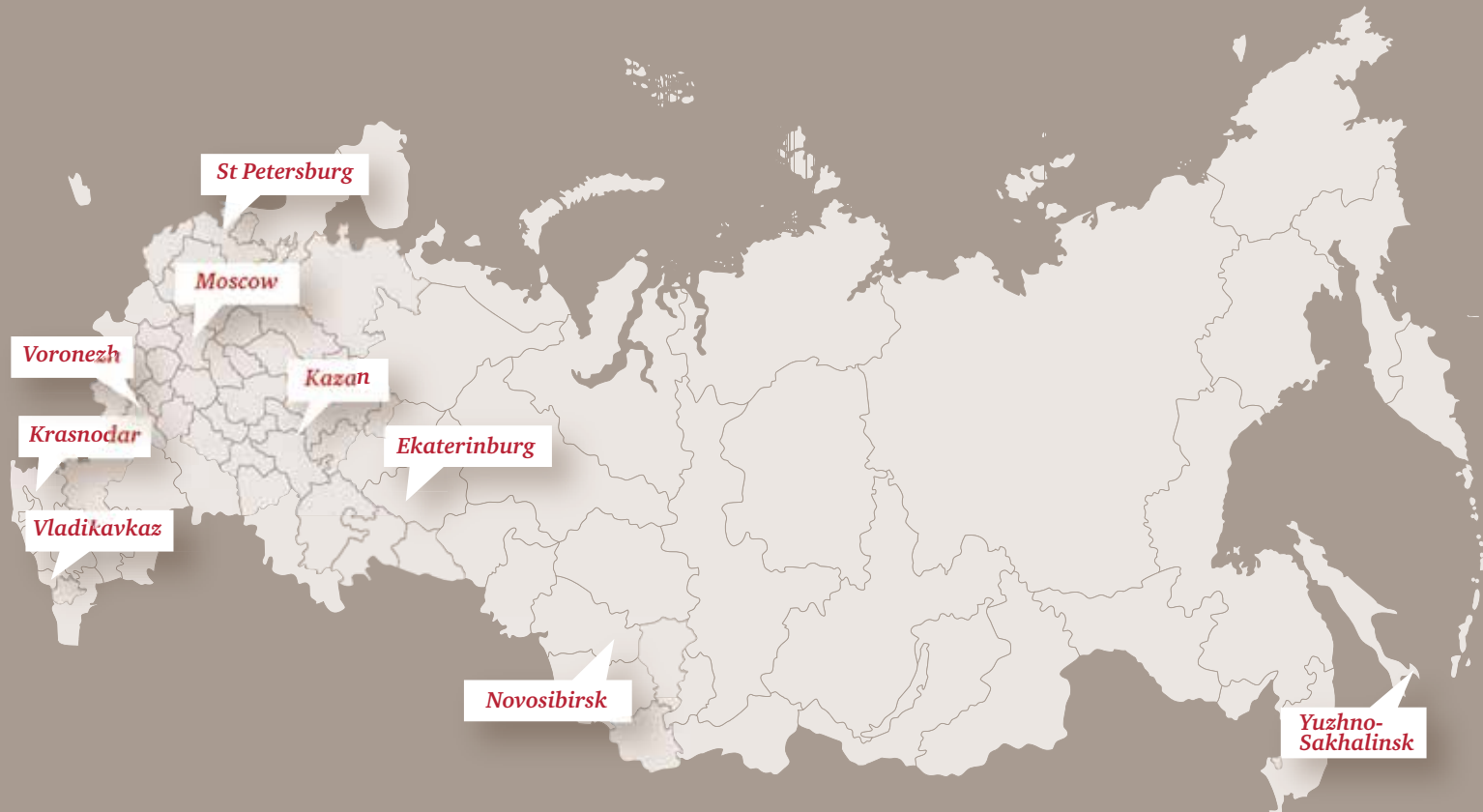
In 2014 PwC Russia will celebrate 25 years operating in Russia. Today we have over 2,000 professionals working out of nine offices across the country; this combination of size, range and experience allows us to help our clients to make the most of the many business opportunities that the Russian market offers. PwC has extensive expertise in all major business sectors and dedicated specialists who are ready to offer services that are tailored to meet our clients' business needs.

I hope that you find *Doing Business and Investing in the Russian Federation* useful. If you have any questions or comments, do not hesitate to contact me or any of my fellow partners.

David Gray
Managing Partner, PwC

Content

Office locations in Russia	3	7. Accounting and audit requirements	24
1. Russia: country profile	4	7.1 Accounting	
1.1 Introduction		7.2 Auditing	
1.2 Government structure		8. Tax system and administration	26
1.3 Legal system		8.1 Transfer pricing legislation	
1.4 People		8.2 Consolidated taxpayer regime	
1.5 Economy		8.3 Social contributions	
1.6 International agreements		9. Corporate income taxes	28
2. Business environment	8	9.1 Profits tax	
2.1 Business climate		9.2 Corporate residence	
2.2 Special economic zones (SEZ) and industrial clusters		9.3 Permanent establishment (PE)	
2.3 Trade and investment		10. Value-added tax (VAT)	30
3. Financial system	10	10.1 Output VAT	
3.1 Central Bank of Russia		10.2 Withholding VAT	
3.2 Banking sector		10.3 Input VAT recovery	
3.3 Deposit Insurance Agency (DIA)		10.4 VAT compliance requirements	
3.4 Insurance		10.5 Import VAT	
3.5 Federal Service for Financial Markets and megaregulator		11. Other taxes	32
3.6 Securities market		11.1 Import duties	
3.7 Pensions and pension funds		11.2 Customs processing fee	
3.8 Anti-money laundering legislation		11.3 Excise duty	
4. Importing and exporting	13	11.4 Property tax	
4.1 Customs policy		11.5 Transport tax	
4.2 Import restrictions		12. Corporate taxation	34
4.3 Customs duties		12.1 Corporate tax system	
4.4 Temporary import relief		12.2 Tax administration	
4.5 Customs duties incentives		12.3 Deductions	
4.6 Documentation and procedures		12.4 Tax credit and incentives	
4.7 Warehousing and storage		12.5 Withholding taxes	
4.8 Re-exports		13. Sports mega-events	40
5. Business entities	16	13.1 Preparations for the XXII Olympic Winter Games and XI Paralympic Winter Games of 2014 in Sochi	
5.1 Legal framework		13.2 Formula One Grand Prix in Russia	
5.2 Choice of entity		13.3 2018 FIFA World Cup	
5.3 Forms of business entities		13.4 XXVII Summer Universiade in Kazan	
5.4 Joint-stock companies		14. PwC in Russia	42
5.5 Limited liability companies		Appendices	46
5.6 Full and limited partnerships		Appendix A – Main Macroeconomic indicators of Russia in 2005-2012	
5.7 Branches		Appendix B – List of countries with which Russia has concluded free trade agreements	
5.8 Representative office		Appendix C – Forecast of the economic development of Russia for 2012 – 2014	
5.9 Proposals for change		Appendix D – Tax rates	
6. Labour relations and social security	19	Appendix E – List of double tax treaties	
6.1 Labour relations		Appendix F – International agreements	
6.2 Working conditions		Appendix G – Useful sources of information	
6.3 Social security			
6.4 Foreign personnel			
6.5 Concluding employment contracts			
6.6 Amending employment contracts			
6.7 Terminating employment contracts			
6.8 Secondment arrangements			
6.9 Trade unions			



Office locations in Russia

Moscow

White Square Office Center
10 Butyrsky Val
Moscow, Russia, 125047
Tel.: +7 (495) 967-6000
Fax: +7 (495) 967-6001

St Petersburg

Office building BolloevCenter
4 Gritsova lane
St.Petersburg, Russia, 190000
Tel.: +7 (812) 326-6969
Fax: +7 (812) 326-6699

Ekaterinburg

Senat Business Centre
7A Gorkogo str.
Ekaterinburg, Russia, 620075
Tel.: +7 (343) 253-1433
Fax: +7 (343) 253-1430

Kazan

35/2 Pravo-Bulachnaya str.
Kazan, Russia, 420111
Tel.: +7 (843) 233-0707
Fax: +7 (843) 233-0717

Novosibirsk

Hilton Business Center
7 Kamenskaya str.
Novosibirsk, Russia, 630099
Tel.: +7 (383) 211-9500
Fax: +7 (383) 211-9501

Krasnodar

Business center Olympic Plaza
43 Krasnoarmeyskaya str.
Krasnodar, Russia, 350000
Tel.: +7 (861) 210-5500
Fax: +7 (861) 210-5544

Yuzhno-Sakhalinsk

6 A. Buyukly str., Eastern block, Floor 5
Yuzhno-Sakhalinks, Russia, 693007
Tel.: +7 (4242) 727-463 / 727-344
Fax: +7 (4242) 727-344

Vladikavkaz

1 Gappo Baeva str.
Vladikavkaz, Republic of North
Ossetia-Alania, Russia, 362040
Tel.: +7 (8672) 546-692
Fax: +7 (8672) 546-692

Voronezh

Business center Stolitsa
19B Moskovsky prospect, Floor 9
Voronezh, Russia, 394016
Tel.: +7 (473) 228-1910
Fax: +7 (473) 228-1911



1. Russia: country profile

1.1 Introduction

Geography and climate

Russia is a vast country that extends over of the northern Eurasia. At 17.075 million km² (6.6 million mi²) in area, it is the largest country in the world. To the west, it borders Ukraine, Belarus, Poland and the Baltic states; to the north, Finland, Norway; and to the south, Georgia, Azerbaijan, Kazakhstan, Mongolia, China and North Korea. Russia has a coastline on three oceans: the Arctic, the Atlantic and the Pacific.

Russia has a very diverse topography: from tundra in the north to semi-arid deserts in the south, with a full variety of forests and grasslands from west to east. The climate is just as diverse, with arctic and subarctic zones in the north and subtropical areas in the south. The majority of the country, however, features a continental climate.

The Russian Federation is comprised of 83 constituent regions, which are grouped into eight federal districts under the administration of presidential envoys. There are 15 cities with a population of over one million: Moscow (the capital), St Petersburg, Novosibirsk, Yekaterinburg, Nizhny Novgorod, Samara, Kazan, Omsk, Chelyabinsk, Rostov on the Don, Ufa, Volgograd, Perm, Krasnoyarsk and Voronezh¹.

¹ <http://expert.ru/2011/12/29/gde-na-rusi-zhit-horosho/>



17.075

Russia is a vast country that extends over of the northern Eurasia. At 17.075 million km² (6.6 million mi²) in area, it is the largest country in the world.

1.2 Government structure

The Constitution, adopted in 1993, states that the Russian Federation is a democratic federally structured republic with a government based upon the rule of law.

Russia has a president as head of state and a prime minister as head of government.

The legislative branch is a bicameral Federal Assembly, consisting of the State Duma (the lower house of parliament) and the Federation Council (the upper house). The State Duma drafts legislation and can amend the Constitution. The Federation Council approves or rejects draft laws passed by the State Duma and also can appoint high court judges.

Executive power is exercised by the Government, which is comprised of the prime minister, deputy prime ministers and federal ministers.

The judicial branch involves several levels of courts, the highest of which is the Constitutional Court. The Supreme Court is the highest judicial body for courts with general jurisdiction (civil, criminal and administrative cases). The Supreme State Arbitrazh Court is the highest instance for economic disputes.

Russia's constituent entities (regions, territories, autonomous areas, autonomous regions, federal cities, and republics) have their own legislative and executive bodies.

1.3 Legal system

The Russian legal system is based on statutory law rather than case law. The main legal acts are the Constitution, federal constitutional laws, federal laws, presidential decrees, government regulations, and the laws of the Russian Federation's 83 constituent regions. The Constitution recognises the norms of international law, as well as the international treaties and agreements to which Russia is a signatory, as part of the domestic legal system. International treaties in force to which the Russian Federation is a party prevail over domestic law in case of conflict.

The reform of Russian civil legislation started at the end of 2012 and major amendments to the Russian Civil Code are expected in 2013. Many provisions in the code are likely to go through substantial revision and this might have a significant impact on investment activities in Russia.

1.4 People

Population

Russia's well-educated workforce is an important asset for long-term growth. Furthermore, the country's relatively low-cost and generally highly skilled workers are some of the major selling points for investors.

Preliminary estimates put Russia as the ninth most populous country with 143.4 million people as of January 2013. The population has been on a slow rise since 2009. Russian Federal Statistics Service (Rosstat) says that, as of 2012, 61% of population are of working age, while 23% are above it and 16% are below it. The population is 46% male and 54% female.

Russia is a multiethnic state with around 160 different ethnic groups. Ethnic Russians are the majority accounting for 80.9% of the population, followed by Tatars (3.9%) and Ukrainians (1.4%)².

Language

Russian is the official language. It is the most widely spoken Slavic language and is a co-official language in several former Soviet republics. English is the most commonly studied foreign language in Russia and is a required subject at most schools.

Religion

Russia is a secular state and enjoys full religious freedom. According to the latest survey by the Levada polling centre, Russian Orthodoxy is the dominant religion in Russia with 79% of the respondents considering themselves to be adherents. Islam is the second most popular religion with 5% of the population adhering. Catholicism, Protestantism, Judaism and other religions account for no more than 1% each³.

Education

Primary and secondary education in Russia is compulsory. Children receive either a nine-year basic or eleven-year comprehensive compulsory education. The Russian educational system is currently undergoing reform.

According to Rosstat, there were 1,080 institutions of higher education in the country in 2011. Around 24% of the population over the age of 15 years have completed higher education⁴.

² All-Russia Population Census of 2010

³ http://en.gazeta.ru/news/2012/10/11/a_4808977.shtml

⁴ <http://www.rg.ru/2012/12/11/laikam.html>

The average exchange rates
in 2012 came to

**1 USD /
RUB 31.07**

**1 EUR /
RUB 39.94⁶**

1.5 Economy

Economic overview

The Russian economy is a positive exception in the currently sluggish world system. Expectations for Russia are generally more optimistic than for the majority of countries. According to 16th PwC Annual Global CEO Survey, 66% of Russian CEOs are very confident about their companies' revenue growth in the next 12 months compared to 36% globally.

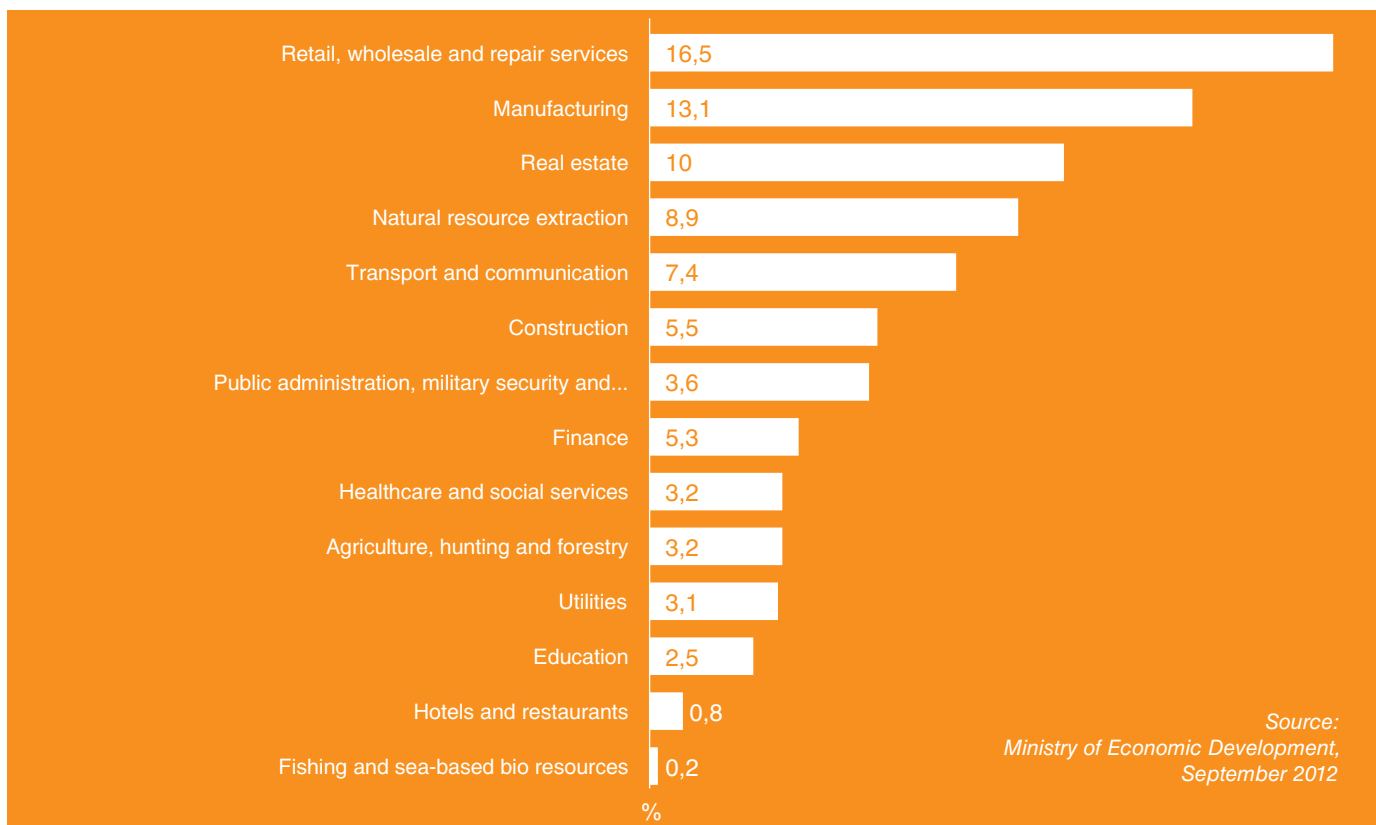
Russia outperformed most developed countries in 2012 even though economic growth has slowed. Rosstat says that Russian GDP grew 3.4% in 2012. The Ministry of Economic Development forecasts 3.6% growth for 2013. Industrial production growth slowed down to 4.1% in 2012 from 6.5% in 2011. Furthermore, investment in fixed capital rose 10.3% year on year in January-September 2012. The inflation rate reached 6.6%, just above the 6.1% record low for 2011. Russia's unemployment rate is lower than in most developed countries and has held below 5.5%

since May 2012. Growth of real disposable income and a rise in consumer spending are the key drivers of economic growth in Russia. For example, retail sales grew 5.9% in 2012 while real disposable incomes rose 4.2%⁵.

The Russian government is pursuing a strict fiscal and monetary policy that helps keep budget expenses in check while accumulating large revenues coming from oil and gas sectors for the Reserve Fund. The Fund's total value exceeded USD 62 billion as of January 2013. The Ministry of Finance forecasts the 2012 budget deficit at 0.25% GDP compared to 0.8% surplus in 2011. The country's international reserves are among the highest in the world and came to USD 537.6 billion as of 1 January 2013⁷.

At a Government meeting on 31 January 2013 major guidelines were presented for the Government until 2018. They include: improving the investment climate, integrating with the global economy, increasing transparency in the economy, developing infrastructure, as well as education and healthcare.

2012 GDP breakdown by sector



⁵ <http://expert.ru/2013/01/31/pyatiletka-deshevyih-deneg/>

⁶ Central Bank of Russia

⁷ Central Bank of Russia



66% of Russian CEOs are very **confident** about their companies' revenue growth in the next 12 months compared to **36%** globally

Russia became a fully fledged member of the WTO in July 2012. The World Bank believes that WTO accession will add 3.3% to the country's GDP in the next three years and up to 11% in the next decade⁸.

Extensive privatisation of major state assets should have a substantial impact on the Russian economy. The final version of the privatisation program was adopted in June 2012. The program foresees the Russian government fully divesting its share stakes in VTB, Sovcomflot, Rosagroleasing, Zarubezhneft, Rushydro, INTER RAO UES, Sheremetyevo Airport, Aeroflot, Russian Agricultural Bank, Alrosa and the country's largest oil company, Rosneft. It also plans to reduce its stakes in Transneft, Uralvagonzavod, Federal Grid Company, Russian Railways, United Shipbuilding Corporation, United Aircraft Corporation and Rusnano⁹.

Russia is also starting a decade of major sport events this year. It will host the 2013 Summer Universiade in Kazan, followed by the 2014 Winter Olympics in Sochi and the 2018 FIFA World Cup among others. This is Russia's chance to make significant progress in infrastructure development and finding the means to attract more tourists from all over the world.

1.6 International agreements

Russia is a major international power. Since it is recognised as the successor to the Soviet Union in international law, it has assumed the USSR's permanent seat on the UN Security Council, as well as its membership in other international organisations, rights and obligations under international treaties, property and debts. As one of the UN Security Council's five permanent members, Russia bears a unique responsibility for maintaining international peace and security. Russia has participated as a member of the Group of Eight (G8) industrialised nations since 1994 even as the G7 finance ministers continue to meet several times a year without their Russian counterpart. The Group of Twenty Finance Ministers and Central Bank Governors (G20), in which Russia is also a member, should replace the G8 as the main consultative body for global financial issues as was announced at the G20's Pittsburgh summit in September 2009.

Russia is a member of numerous other international organisations such as the Council of Europe and the Organisation for Security and Cooperation in Europe. Russia also plays a special role in Central Asian organisations like the Commonwealth of Independent States (CIS), the Eurasian Economic Community (EurAsEC), the Collective Security Treaty Organisation (CSTO) and the Shanghai Cooperation Organisation (SCO). In 2012, Russia, Belarus and Kazakhstan formed the Common Economic Space (CES). Russia also became the full member of the WTO in 2012. (see appendix C for full list of organizations where Russia has membership).



⁸ <http://www.vestifinance.ru/articles/14084>

⁹ <http://ria.ru/economy/20120622/679136721.html>



2. *Business environment*

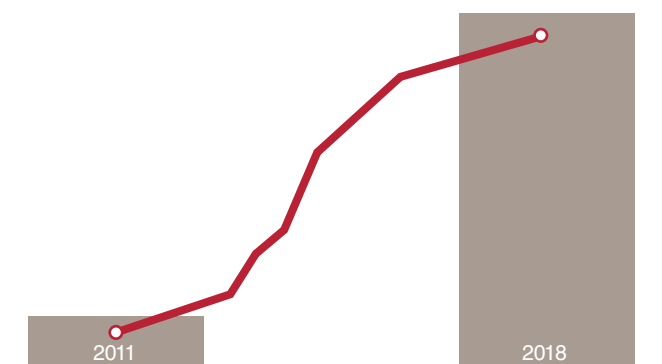
2.1 Business climate

The Russian authorities consider improving the investment climate to be a top priority. The Government has an ambitious goal to raise the country's position in the World Bank's Doing Business ranking from 120th in 2011 to 20th by 2018. Russia has climbed eight positions and placed 112th in the latest 2013 ranking. A significant feat was achieved in paying taxes – Russia moved from 94th to 64th place.

In order to raise Russia's investment ratings, the Agency for Strategic Initiatives (ASI), which was formed specially to support medium and small businesses in Russia, is preparing roadmaps for improving the investment climate. Governors and heads of federal agencies will be responsible for creating favorable business conditions. An annual assessment of their efficiency will be carried out, based on methods that ASI has jointly developed with the business community.

The roadmaps focus on the most vulnerable aspects of Russian investment climate and aim to reduce administrative barriers, improve customs and tax regulation, protect investors' rights, facilitate state registration of legal entities and the procedure of getting construction permissions, increase access to bank loans and energy infrastructure, and promote competition.

The Government has an ambitious goal to raise the country's position in the World Bank's Doing Business ranking from 120th in 2011 to 20th by 2018



In addition to the ASI, several other institutions can help improve the investment climate and assist foreign investors in Russia. For instance, the Russian Direct Investment Fund (RDIF) was established in 2011 to participate in the cofinancing of foreign investment for the purposes of economic modernisation. Russia's Ministry of Economic Development acts as an investment ombudsman by receiving complaints and helping to resolve issues. Furthermore, Russia has recently set up a business ombudsman in order to protect the rights of businesses when faced with administrative barriers or bureaucratic pressure¹⁰.

2.2 Special economic zones (SEZ) and industrial clusters

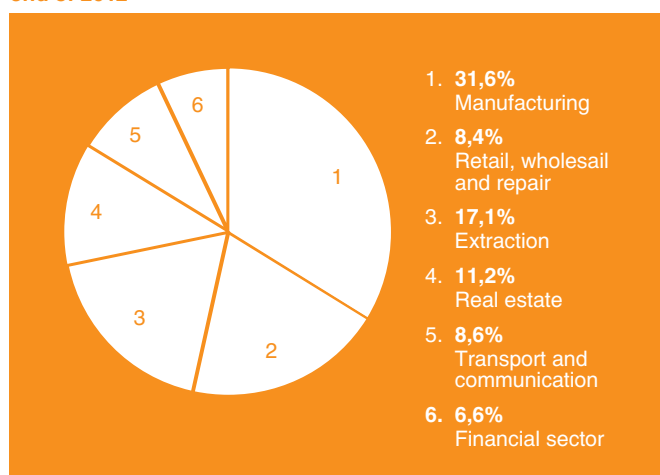
Russia is a major international power. The Russian special economic zones (SEZ) are areas of innovation-driven growth. There are four types of SEZ in Russia: industrial, innovation zones, tourism and recreation, and port zones. At the present moment, 25 zones are in operation. Between 2006 and 2012, over 300 investors from 20 countries became SEZ residents. The zones foster a favourable business environment and feature state-built infrastructure, free customs area treatment, tax benefits and other benefits. State company Special Economic Zones JSC operates most of operational SEZs and provides assistance to residents in areas such as land survey service, logistics, conferences spaces rent, maintenance and upkeep etc¹¹.

Russia's policy of industrial clusters has proven viable and attractive for foreign investors. Major foreign automakers, pharmaceutical firms and companies from other sectors have already established or are planning to develop production facilities in various industrial clusters throughout Russia.

2.3 Trade and investment

The Central Bank of Russia says that inflow of foreign direct investment (FDI) to the country totalled USD 52.9 billion in 2011. For the first three quarters of 2012, FDI came to USD 33 billion. FDI outflow from Russia came to USD 67.3 billion in 2011 and USD 37.5 for January-September of 2012. As of end of 2012 21.2% of total accumulated foreign investment came from Cyprus, 17% – the Netherlands, 11.8% – Luxembourg, 7.7% – China, 7.4% – UK, and 6.9% – Germany.

Total foreign accumulated investment with breakdown by sector, end of 2012



According to Rosstat data, foreign trade came to USD 864.7 billion in 2012, a year on year increase of 2.2%. Total exports totaled USD 529.3 billion and imports stood at USD 335.4 billion.

According to Russian Federal Customs Service mineral products accounted for 70% of total exports in 2012 while 50% of total imports were machinery, equipment and means of transport. The European Union is the major trade partner of Russia and accounts for 49% of trade turnover, followed by APEC countries with 24%, of which 10.5% is with China. CIS countries account for 14.1%.

¹⁰ <http://www.fiac.ru/about.php>

¹¹ <http://eng.russeze.ru/services/>



3. *Financial system*

3.1 Central Bank of Russia

The principal functions of the Central Bank of Russia are¹²:

- Protecting the rouble and ensuring its stability;
- Monetary policy;
- Issuing money and currency circulation;
- Lender of last resort;
- Payment regulation;
- Managing state budget accounts;
- Banking supervision and the registration of credit organisations.

In June 2010, the Central Bank cut the refinancing rate for the fourteenth time in a row, bringing it to 7.75% (down from 13% at the beginning of 2009). Lowering the interest rate was meant to help revive the lending process. In February 2011 it was raised to 8% and in May to 8.25%, and in December that year it was cut again, to 8%.

¹² <http://www.cbr.ru/today/?Prtid=bankstatus>

the Russian banking sector once again showed double-digit growth and the record profits in 2012, topping RUB 1 trillion (approx. USD 32.6 billion) which is an increase of 19.3% from 2011.

1
trillion

3.2 Banking sector

According to the Central Bank, the Russian banking sector once again showed double-digit growth and the record profits in 2012, topping RUB 1 trillion (approx. USD 32.6 billion) which is an increase of 19.3% from 2011. Banks' assets increased by 18.9% in 2012 to RUB 49.5 trillion compared to a 23.1% increase in 2011. Total funds held in individual deposits increased by 20% to RUB 14.3 trillion in 2012 compared to RUB 11.9 trillion as of the end of 2011. Furthermore, loan portfolios in the banking sector increased by 18.3% to RUB 34 trillion by the end of 2012 compared to RUB 28.7 trillion at the end of 2011.

As of 1 January 2013, 956 credit organisations were in operation in Russia compared to 978 institutions on 1 January 2012. In terms of assets, the largest banks are state controlled, including Sberbank, VTB, Gazprombank and Russian Agricultural Bank.

3.3 Deposit Insurance Agency (DIA)¹³

The DIA was established in 2004 and is responsible for:

- deposit insurance;
- deeping a register of banks participating in the deposit insurance system;
- monitoring the formation of the deposit insurance fund;
- managing the resources of the deposit insurance fund.

In 2008, the DIA was entitled with the functions of financial rehabilitation of socially and economically important banks¹⁴.

As of 1 January 2013, 891 banks were registered in the deposit insurance system¹⁵. In January-September 2012, 12 insured events took place and the Agency's total insurance liability for this period came to RUB 14.1 billion¹⁶. Also, banks' insurance payments to the DIA for this period reached RUB 35.3 billion. The DIA's fund came to RUB 176.4 billion.

DIA invests in federal bonds, Central Bank deposits, corporate bonds and securities.

3.4 Insurance

As of 30 September 2012, there were 473 registered insurance companies and 11 mutual insurance societies.

For January-September 2012, total insurance premiums (excl. compulsory medical insurance (OMS)) came to RUB 608 billion with insurance payments coming to RUB 262 billion.

Almost all segments have posted double-digit growth for insurance premiums. The fastest growing segment was obligatory insurance (excl. OMS and auto insurance (OSAGO)) which saw a 273.3% year-on-year increase followed by life insurance (59.7%), entrepreneurial and financial risks (58.9%), OSAGO (23.7%), and personal insurance (20.3%, excl. life insurance)¹⁷.

3.5 Federal Service for Financial Markets and megaregulator

The Federal Service for Financial Markets (FSFM) is the federal executive body that regulates and supervises the following areas:

- financial markets (excluding banking and audit);
- insurance;
- stock exchanges;
- brokers.

The Federal Service for Insurance Supervision (FSIS) was merged with the FSFM in 2011. The functions of the FSIS were divided between the FSFM and the Central Bank¹⁸.

The FSFM is planned to be liquidated by 2016. However, a Financial Stability Committee will be set up under the Central Bank which will bring together government officials and representatives of regulatory authorities with the aim of improving the business environment in Russia¹⁹. The newly developed megaregulator will combine regulation and oversight functions which proved to be effective in several countries that have experienced economic crisis²⁰.

¹³ <http://asv.org.ru/agency/annual/2011-9/>

¹⁴ <http://www.asv.org.ru/en/>

¹⁵ http://www.asv.org.ru/agency/statistical_information/

¹⁶ <http://www.asv.org.ru/agency/annual/2012/index.php>

¹⁷ http://www.fcsr.ru/ru/contributors/insurance_industry/statistics/index.php?id_4=252

¹⁸ <http://www.lenta.ru/news/2011/03/04/unite/>

¹⁹ <http://www.rbcdaily.ru/finance/562949985205254>

²⁰ http://mfc-moscow.com/index.php?id=20&_newslid=1111

The Russian Pension Fund's budget projects expenses over RUB 6 trillion in 2013

6
trillion

3.6 Securities market

The consolidated MICEX-RTS stock exchange dominates the Russian securities market. A merger between the Moscow Interbank Currency Exchange (MICEX) and the Russian Trading System (RTS) reached completion in December 2011. The consolidated stock exchange is designed as a universal platform for both Russian and international investors to trade in securities, bonds, derivatives and currency.

The united MICEX-RTS IPO took place in February 2013²¹.

3.7 Pensions and pension funds

Pension reform has been under way in Russia for several years already. This reform aims at encouraging individuals and employers to invest in pensions thanks to changes to taxation, improvements in the regulation of private pension funds and offering broader investment opportunities for pension savings.

Pensions in Russia consist of two parts: insurance and accumulative (contribution based).

Since 2004, people have been able to transfer the accumulative part of their state pensions to asset-management companies or private pension funds, which are regulated by the FSFM. Variety of investment options is there to open to non-government pension funds, including government securities, Russian issuers' bonds, mortgage-backed securities, deposits, and equities of international financial organisations²².

Pension payments were increased by 6.6% on 1 February 2013. Therefore, the average old-age retirement pension comes to RUB 10.4 thousand. An additional increase in pensions is expected for April 2013. The premium rate for contributions to the Russian Pension Fund is unchanged at 22% of salary. This rate will apply to each employee's annual salary up to RUB 568,000 and an additional 10% for salaries over this level²³. The payment rates for the health Insurance Fund (FOMS) and Social Security Fund will also remain unchanged, at 5.1% and 2.9% respectively²⁴.

The Russian Pension Fund's budget projects expenses over RUB 6 trillion in 2013²⁵.

3.8 Anti-money laundering legislation

A number of measures have been implemented since 2001 to bring anti-money laundering (AML) legislation in line with international standards, along with organisational and administrative measures for enforcing the law. The AML measures include special controls over certain transactions and tighter Central Bank regulation of the banking system.

Financial institutions such as banks, insurance companies, professional securities market participants, and leasing companies all have had to introduce special monitoring and reporting functions, as well as report to supervisory bodies on a regular basis.

Recent legal amendments aim to bring Russian legislation in line with the recommendations of the international Financial Action Task Force on Money Laundering (FATF)²⁶. Russia became a FATF member in 2003. Russia holds presidency at the FATF in 2013-2014²⁷.

Russia is also the member of The Eurasian group on combating money laundering and financing of terrorism (EAG) which was formed in 2004. This is a FATF-style regional body uniting Belarus, India, Kazakhstan, China, Kyrgyzstan, Russia, Tajikistan, Turkmenistan and Uzbekistan. In addition, 14 more states and 18 international and regional organizations have observer status within the EAG. Russia ratified an agreement with the EAG in February 2013 for the EAG Secretariat to have a presence in the country²⁸.

²¹ <http://www.finmarket.ru/z/nws/news.asp?id=3197411>

²² Federal Law "On Investment Resources to Fund the Contribution Element of Employment Pensions in the Russian Federation"

²³ http://www.pfrf.ru/ot_habar/pr_releases/56303.html

²⁴ <http://www.referent.ru/48/102806>

²⁵ http://www.pfrf.ru/press_center/53804.html

²⁶ <http://top.rbc.ru/society/09/11/2011/624310.shtml>

²⁷ <http://www.rg.ru/2012/08/28/kontrol.html>

²⁸ http://www.eurasiangroup.org/ru/news/detail/news/podpisan_zakon_o_ratifikacii_soglasheniya_mezhdu_pravitelstvami



4. Importing and exporting

Tips for exporters

- *If goods are exported or imported between a foreign company and a Russian company, the Russian company is usually responsible for the customs clearance*
- *In order to import goods into Russia and clear them through customs, an importer has to make all customs payments due under the chosen customs regime and comply with other requirements in customs legislation (e.g. certification requirements)*
- *The import of certain goods (e.g. high frequency and encryption equipment, etc.) requires licenses*
- *Russia has several special economic zones (SEZ) offering customs benefits*

4.1 Customs policy

Russia's customs policy has recently seen several developments:

- A reduction in the customs duty on technological equipment imports;
- Simplification of customs clearance;
- Tighter customs control after the customs clearance of goods;
- Further customs integration between Russia, Belarus and Kazakhstan in the creation of the Single Economic Space, as well as further cooperation and more extensive integration of the member countries' legislation;
- Overall reduction of trade barriers for goods and services thanks to Russia's WTO accession.

4.2 Import restrictions

Certain imports to Russia require permits, certification (e.g. of conformity, sanitation), licences and other types of authorisation, for which applications should be filed with the customs authorities during the customs clearance.

Russia imposes an anti-dumping duty on certain goods (e.g. metal pipes originating from Ukraine).

4.3 Customs duties

Classification of goods

The Customs Union's tariff classification system, which is currently applied in Russia, is based on the internationally recognised and used Harmonised Commodity Description and Coding System.

Valuation rules

Customs valuation in Russia is in line with GATT/WTO principles. The customs value of a good is generally equivalent to the DAF/Customs Union border transaction value.

Rates

Import duty is applicable to most goods. Most customs duty rates in Russia are ad valorem (i.e. they factor in a percentage of the goods' customs value). There are also specific duties for certain types of imports, calculated by volume, weight or quantity. Some duties have a combined rate where the two approaches are incorporated and, thus, the tax base may vary.

Base customs duty rates vary widely, from 100% but not less than EUR 2 per litre on spirits to zero for some printed materials and certain priority imports. For instance, the zero duty is applicable to a wide range of equipment and machinery. On average, duty rates fall between 5% and 20% of the customs value of goods. Base rates specified in the law are applicable for countries with Most Favoured Nation status. Certain raw materials and handmade goods from "developing" and "least developed" countries may be imported at 75% of the base rates or zero rates, respectively. Goods originating in other countries are subject to duty at double the base rates.

The following goods are exempt from customs duty: transit goods; goods imported by individuals for personal use (worth no more than EUR 1,500 [EUR 10,000 for individuals travelling by air] and weighing less than 50 kg); cultural valuables; means of transport involved in the international movement of goods and passengers; humanitarian aid; and some other items.

Free trade agreements

Russia has adopted free trade agreements with countries of the Commonwealth of Independent States (CIS), as well as some other countries (Serbia, Montenegro).

Goods originating from these countries (e.g. Ukraine) are exempt from customs duty for import to Russia (subject to certain conditions). Furthermore, Russia, Belarus and Kazakhstan have formed a Customs Union, and goods moving within and between these countries are generally not subject to customs clearance.

Excise tax

Certain categories of goods are subject to excise tax for import to Russia (e.g. alcoholic beverages, cigarettes, etc.). The excise tax rates are usually specific (i.e. based on the volume, weight or other characteristics).

Import VAT

The import VAT rate for most goods is 18% of the customs value, inclusive of customs duty and excise tax (if any). Food, certain types of children's goods and a limited selection of other goods may be subject to 10% or 0% VAT.

Customs processing fees

Customs processing fees are in place as a flat fee and vary from around EUR 13 to EUR 750 per customs declaration depending on the customs value of the goods. Goods declared electronically are subject to reduced rates for customs processing (25% reduction).

Payments

Customs payments are generally made before or during the submission of declarations to the customs authorities.

4.4 Temporary import relief

Goods may be imported under a temporary import customs regime, normally for up to two years. This is usually permitted if it is possible to identify the goods upon their re-export. Temporary importation requires the permission of the customs authorities. Upon expiry of the temporary importation period, goods are moved out of Russia or placed under another customs regime (e.g. released for free circulation).

Temporary importation requires periodic customs payments of 3% per month of the total customs payments due if the goods have been imported for free circulation. When the goods are exported, these customs payments are not refunded. Customs can require a security (e.g. in the form of a deposit, pledge, bank guarantee, etc.) for customs payments.

Goods qualifying as fixed assets for production purposes may be admitted and subject to a 3% monthly customs payment for a temporary import period of 34 months, if the Russian user has yet to obtain property rights (e.g. for leasing). Temporarily imported goods can only be used by importers who have obtained customs' permission for temporary importation. However, transferring such temporarily imported goods to other company is possible as long as the authorisation of the customs authorities has been obtained.

Customs processing fees are in place as a flat fee and vary from around EUR 13 to EUR 750 per customs declaration

**13
to
750**

4.5 Customs duties incentives

Charter capital contributions

Fixed production assets imported by a foreign investor as a charter capital contribution are free from customs duty. The goods must not be excisable and should be imported within the timeframe in place for charter capital formation. The customs authorities may require a security on customs payments upon the importation of goods with duty exemption. The customs authorities can check to ensure the proper use and further disposal of goods exempted from customs duty.

VAT exemption

VAT exemption is also available for imported technological equipment. The Russian government has approved a list of equipment eligible for VAT exemption.

Tolling

Goods imported into Russia for processing may be placed under an inward processing (IPR) procedure (subject to certain conditions).

Under IPR, goods (e.g. raw materials) imported for processing are eligible for full exemption from customs duty and import VAT, as long as the processed/finished goods are subsequently moved out of Russia within a timeframe approved by the customs authorities. Export customs duty is not charged on exporting finished goods out of Russia.

IPRs must be authorised by the customs authorities. In addition, only a Russian company may apply for an IPR.

Special economic zones

A number of special economic zones (SEZ) with a free customs regime have been established in Russia. Foreign goods usually imported to and used within an SEZ are eligible for exemption from import customs duty and VAT. When foreign goods or products from their processing are subsequently released into free circulation to the rest of Russia, import customs duty and VAT are payable. Duty-free import from a SEZ to the rest of Russia is usually not available for SEZ residents who have registered after 1 January 2012. If the goods manufactured in a particular SEZ are exported to foreign countries, they are subject to export duty, if applicable. Foreign goods that were imported into the SEZ but not processed may be re-exported without paying export customs duty.

4.6 Documentation and procedures

Registration of importers and exporters

There is no established procedure for registering importers and exporters with the customs authorities. However, in practice, certain documents may be required by customs prior to import (charter documents, tax registration certificates, etc.).

Documentation

Customs Union regulations establish a comprehensive list of documents required for customs clearance. In practice, the set of documents for submission to the customs authorities may vary depending on the character of imported/exported goods, conditions of the transaction, etc.

Customs value declarations

The customs value of imported goods is declared in a declaration form in which the customs value must be properly supported by the appropriate documents. The list of documents may vary depending on the terms of a particular transaction. While Customs Union regulations provide a general list of documents required to confirm the declared customs value, the list is not exhaustive.

If the customs authorities disagree with the customs value declared by an importer, they may adjust it.

4.7 Warehousing and storage

Goods that are subject to customs control (e.g. imported goods that have yet to clear customs) can be stored temporarily at special warehouses before being released by the customs authorities. Although the storage period should not exceed two months, an importer can request that the customs authorities extend it up to four months.

Warehouses for temporary storage are usually located near customs offices.

4.8 Re-exports

Goods imported into Russia may be re-exported as long as they have not been released for free circulation in the country. They are usually re-exported without payment of export customs duty.



5. *Business entities*

5.1 Legal framework

Civil Code

Chapter 1 of the Civil Code covers certain business organisations and their organisational foundations. It sets out the requirements for founding documents, as well as name, location, governance and state registration of legal entities. It also defines governing and representative offices while also governing reorganisation and liquidation.

Joint-stock and limited liability companies are governed by separate federal laws²⁹.

5.2 Choice of entity

Foreign investors can choose a number of different forms of business representation in Russia, from Russian legal entities to representative offices and branches of foreign legal entities. Russian legal entities may be established in various forms, including joint-stock companies, limited liability companies and partnerships.

Representative offices of foreign entities are strictly limited to liaison and support functions. Branch offices are free to perform all of a foreign entity's activities. Many investors opt for branch offices at the outset because these entities are able to engage in any kind of commercial activity are easier to establish and are subject to less onerous reporting requirements than those in place for Russian companies. At the same time, for many investments, including joint ventures and production plants, and owing to issues relating to licensing, customs and privatisation of state property, a Russian legal entity may be better suited to an investor's needs.

²⁹ Federal Law No.14-FZ of 8 February 1998 "On Limited Liability Companies" and Federal Law No. 208-FZ of 26 December 1995 "On Joint-Stock Companies"

5.3 Forms of business entities

The following forms of commercial (for-profit) legal entities may be incorporated in Russia:

- full partnerships;
- limited partnerships (kommandit partnerships);
- economic partnerships;
- limited liability companies;
- additional liability companies;
- production cooperatives;
- joint-stock companies (open and closed); and
- unitary enterprises (state-owned legal entities not open to foreign investors).

Of the above, only the joint-stock company resembles a corporation. However, limited partnerships, as well as limited and additional liability companies, also limit the liabilities of shareholders (participants), as described below.

5.4 Joint-stock companies

Under the Civil Code, a joint-stock company's capital is divided into a set number of shares. The shareholders in a joint-stock company are not liable for its obligations and accept the risks of losses because of operations within the limit of their respective stakes. Shareholders may sign shareholders' agreements that regulate how their rights are exercised.

Russian law stipulates that only joint-stock companies may issue stock, which is deemed as securities and is subject to registration. Russian legislation describes "open" and "closed" joint-stock companies, which are the broad equivalent to public and private companies. Open joint-stock companies must disclose certain financial and other information annually.

A company may be created as a new entity or by reorganising an existing legal entity (consolidation, merger, division, spin-off or a change in legal form). A company is considered created from the date of its state registration.

The joint-stock company's share capital is composed of the nominal amount of shares acquired by the shareholders. The minimum "charter" (share) capital for open and closed joint-stock companies is 1,000 and 100 times the minimum monthly wage³⁰, respectively.

A joint-stock company's higher management body is the General Meeting of Shareholders, which must convene at least once a year. A company with over 50 shareholders must have a board of directors. The company's executive body may be collegiate (board, directorate) and/or "one-person" (director, general director). A joint-stock company's executive body carries out the day-to-day management of the company's activity and reports to the board of directors and the General Meeting of Shareholders.

A joint-stock company may be liquidated voluntarily or by court order in the procedure or on the grounds established by the Civil Code.

The liquidation of a company results in its termination with no transfer of rights and obligations to other persons by succession.

5.5 Limited liability companies

Under the Civil Code, a limited liability company is established by one or several persons whose charter capital is divided into shares.

The liability of each participant in this type of company is limited to the value of its share in the charter capital. The participants may conclude a participants' agreement that regulates how their rights are exercised. The number of participants in a limited liability company cannot exceed 50.

The charter capital of the limited liability company determines the minimum size of the company's property, thereby guaranteeing the interests of its creditors. Minimum charter capital of a limited liability company should come to at least RUB 10,000 (USD 330).

A limited liability company's management structure is similar to that of a joint-stock company.

³⁰ The term "minimum monthly wage" is used by the government as a ratio to calculate different payments and does not reflect the real minimum wage. As of 1 January 2001, the minimum monthly wage is RUB 100.

Minimum charter capital of a limited liability company should come to at least RUB 10,000 (USD 330).



10,000

5.6 Full and limited partnerships

A full partnership is similar to the American general partnership, in which the partners bear (full) joint and some liability for the partnership's obligations. A participant in a full partnership may not be a full partner in any other partnership.

A limited partnership, which is closer to the European kommandit partnership, has both full partners and partners whose liability is limited to their contributions. A full partner in a limited partnership may not be a full partner in another partnership, and its liability is the same as for full partners as described above.

Partnerships under Russian law are generally regarded as legal entities and taxed accordingly. Although they share some of the characteristics of a general partnership, contractual agreements for joint activity do not create a legal entity and special rules governing their tax treatment are in place.

5.7 Branches

AA foreign legal entity's branch or representative office must be registered with the authorities. However, in contrast to Russian legal entities, registering a branch or representative office of a foreign company involves several federal and local authorities. To register, branches and representative offices must take the following steps:

- accreditation with federal bodies. Accreditation is mandatory since local banks and administrative authorities may not recognise the branch/representative office without it;
- tax registration;
- registration with state statistics authorities, obtaining statistics codes;
- registration with social (pension, medical and social security) funds; and
- opening bank accounts.

Investors sometimes confuse the concept of a branch and an accredited representative office but there are important differences. An accredited representative office is not a Russian legal entity, but an officially recognised extension of a foreign legal entity. Russian law restricts the scope of an accredited representative office's activities to auxiliary representational functions.

A branch's legal status differs substantially from that of a representative office. Under Russian law, a foreign legal entity's registered branch (but not a representative office or unregistered branch) is treated as "an enterprise with foreign investment". Therefore, while a registered branch can hold certain types of licences to conduct regulated activities, a representative office or unregistered branch may not.

The state duty for branch accreditation came to RUB 120,000 as of the end of January 2013 (approx. USD 4,100). In addition, accreditation bodies charge a processing fee of between RUB 15,000 (USD 500) and RUB 60,000 (USD 2,000), depending on the period of accreditation (from one to five years, respectively).

5.8 Representative office

An accredited representative office is not a Russian legal entity, but an officially recognised subdivision of a foreign legal entity. Although Russian law suggests that the scope of an accredited representative office's activity should be limited to auxiliary representational functions, many foreign firms actually engage in commercial operations, under a strict interpretation of the law, should only be conducted through a registered branch or a Russian company.

Accreditation bodies charge a processing fee ranging from RUB 30,000 (USD 1,000) to RUB 75,000 (USD 2,500) for the accreditation of a representative office, depending on the period of accreditation (from one year to three years, respectively).

5.9 Proposals for change

A draft law proposing a major overhaul of the Civil Code is currently under consideration in the State Duma. It should be signed into law in several counterparts throughout 2013.



6. Labour relations

In the Russian Federation, rules established in labour law apply to labour relations involving foreign nationals, stateless people, organisations established by them or with their participation, employees of international organisations and foreign legal entities (including, branches or representative offices of foreign legal entities), unless otherwise stated in the federal law or an international treaty to which Russia is a signatory.

Therefore, Russian labour law applies to all employers regardless of how their organisation is defined in law or how its ownership is structured and to all employees regardless of their citizenship or status.

6.1. Labour relations

Labour Code

The Labour Code, which came into force on 1 February 2002, and other special law govern employer/employee. Before 2013, the Labour Code was amended significantly, both to correct textual ambiguities and introduce several fundamental changes. For example, a supplementary section was added to the Labour Code in 2008 covering the work of athletes and coaches. In late 2011, significant amendments were made to the section on hearing and settling collective labour disputes. By early 2013, several important draft federal laws for introducing amendments to Employment Code had been reviewed by the State Duma. One was for the prohibition of the secondment relations in Russian Federation.

The Labour Code heavily regulates employer/employee relations. The law provides employees with the list of obligatory guarantees that cannot be limited under any employment contract or an employer's local internal regulations. Any provision in an employment contract or internal policy that runs counter to these guarantees is illegal.

Safeguards are in place to protect employees from dismissal on the employer's initiative (prior notice, severance allowances), harmful working environments and excessive working hours. Furthermore, Russian labour law makes it very difficult for the employer to dismiss an employee on disciplinary grounds.

6.2 Working conditions

Wages and salaries

Salaries must be paid in Russian roubles at least once every two weeks. Salaries should not be less than the minimum monthly salary as established by Russian law. The minimum wage is regularly adjusted.

As of 1 January 2013, the statutory minimum monthly wage (including for foreign nationals) was RUB 5,205 per month (approximately USD 173).

Individual Russian Federation constituent regions may set their own minimum wage at a higher level. For example, the City of Moscow's minimum wage is periodically set by a relevant regional agreement, and effective 1 January 2013 it has been RUB 11,700 per month (approximately USD 390). On 1 July 2013, it increases RUB 12,200 per month (approximately USD 406).

Employment contracts

A written employment contract with the terms of employment must be concluded with every employee and issued in two copies, each with the respective parties' signatures.. The employer must draw up the employment contract within three business days after the day the employee starts work.

The Labour Code establishes mandatory requirements for the content of employment contracts.

Employment contracts are generally concluded for an indefinite term. A fixed-term employment contract (no more than five years) may also be concluded, but only in those circumstances specifically prescribed by the Labour Code.

A job description should define an employee's job duties in the employment contract or in the separate document. An employee cannot subsequently be required to perform tasks outside the scope of duties described in the job description.

Employers are required to issue an internal order every time an employee is hired, transferred to a new job, granted a vacation, and disciplined or dismissed, as well as in other situations. Moreover, employers should adopt a certain set of internal regulations in accordance with Russian law.

Working hours

- employers are required to keep a record of all time worked by each employee, including overtime;
- the standard working week in Russia is 40 hours over a five- or six-day period;
- for certain categories of employees, the number of working hours must be reduced (for example, employees aged 16 to 18, disabled employees etc);
- the law strictly defines the minimum payment for overtime and holiday/weekend work;
- the working day is shortened by one hour on the eve of public holidays.

Paid holidays

All employees are entitled to at least 28 calendar days of annual paid leave. Employees usually may begin taking vacation time for the first year of their employment once they have worked at a company for six months consecutively.

Equal opportunity

Employers are prohibited by law from making any restrictions or granting any privileges, directly or indirectly, on the basis of gender, race, skin colour, nationality, language, origin, material, family and social status, career position, age, place of residence, religion, political convictions, affiliation with public associations, or other characteristics that are unrelated to an employee's professional qualifications, except in those instances prescribed by federal law. Any discrimination in the establishment and adjustment of salary rates is prohibited.

Termination of employment

The employer may terminate employment relations with the employee only on the grounds listed in the Labour Code. The Labour Code sets out the grounds for termination by the employee, by the employer, and by operation of law. The list is fairly short, and the employer may not adopt additional grounds to terminate an employment contract with the employee except for specific employee categories, such as general director. Otherwise, the dismissal will be deemed to be unlawful and the employee will be reinstated.

Moreover, employers must strictly comply with the procedures and documentation requirements in the Labour Code when terminating employment. The Labour Code gives additional protection to specific categories of employees, including minors, pregnant women, employees with children, trade union members, and various other categories.

Owing to detailed and varied termination requirements, legal advice should be consulted prior to an employee's dismissal.

An employee may terminate employment relations with an employer due to his/her own initiative without providing any reasons. However, two weeks' prior notice of resignation is required in such cases. A longer notice period of one month is required for the general director.

5,205

As of 1 January 2013, the statutory minimum monthly wage (including for foreign nationals) was RUB 5,205 per month (approx. USD 173).

6.3 Social security

Coverage

Social and health security covers pensions, unemployment, maternity and child benefits, illness and other social services.

Employee contributions

Employees currently do not pay Russian social taxes; employers make all relevant contributions.

Employer contributions

Employers currently make the following contributions on behalf of employees:

Obligatory Social Insurance Contributions (SIC) have replaced the Unified Social Tax (UST) since 2010. A ceiling was set for the assessment and payment of insurance contributions in relation to an individual's income. The rates are flat. Furthermore, as of 1 January 2013 SIC is payable on income up to RUB 568,000 at a rate of 30%. If payments are made in favour of foreign nationals temporarily staying in Russia (except highly qualified professionals or employees who have concluded labour contract for the period less than six months in a calendar year), a rate of 22% should be applied. From income exceeding RUB 568,000 SIC should be calculated at a rate of 10%.

Obligatory Accident Insurance Contributions (OAIC) are made against work-related accidents. Rates vary between 0.2% and 8.5% depending on the level of professional risk associated with the employer's activity.

Some key points to consider:

- payments or other allowances under civil law contracts with foreign nationals temporarily resident in Russia are exempt from SIC;
- payments or other allowances made by Russian organisations to foreign nationals working or doing business abroad are exempt from SIC;
- income paid to contractors is exempt from the Social Fund part of the Obligatory Social Insurance Contributions, which effectively reduces total SIC payable;
- Obligatory Accident Insurance Contributions (OAIC) are not payable if the relevant civil contract does not stipulate accident insurance coverage;
- payments or other allowances under employment contracts with highly qualified professionals or employees concluded contract for the period less than 6 months in a calendar year are exempt from SIC.

6.4 Foreign personnel

Accommodation and living conditions

Accommodation in Moscow is usually to Western standards. Many apartments or houses can be rented or bought by expatriates to suit their needs.

Foreign employees can bring their families to live in Russia. Accompanying family members can obtain Russian visas on the basis of the employment status of a working spouse. There are also schools that specifically for the children of expatriates.

Employment restrictions

There are no restrictions on how many foreign employees can work in a given company or how long they can be employed in Russia. However, restrictions are in place regarding the types of activities in which foreign employees can be engaged. For example, a foreign individual cannot work in public service, e.g. as a captain in civil aviation services.

Foreign employees must obtain a work permit and a work visa prior to starting work in Russia.

The Russian Government sets a quota for the number of foreign nationals that can be hired in a given year. The quota for 2013 has not been changed since the previous year and it currently stands at 1,745,584 positions. If the annual quota has been filled, no further work permits can be issued that year, and the employment of any foreign nationals without the proper work permits is strictly prohibited. Only highly qualified specialists (HQS) and a number of specialists who are employed to certain quota-free positions approved by the Russian Government are exempt from the quota system and can be hired even if the given year's quota has already been met. Nonetheless, this provision is subject to certain requirements as stated below in the relevant sections.

Fiscal registration number

A foreign employee does not have to obtain a fiscal registration number unless he/she has been employed as a HQS (see below for more detail).

Residency permit

Foreign personnel do not need residency permits to work in Russia since they are authorised to stay and work for as long as their work permit and work visa are valid. Highly qualified specialists may take advantage of a simplified procedure for obtaining a residency permit, which offers them a number of benefits during their employment in Russia.



800,000

Failure to comply with immigration rules may result in fines of up to RUB 800,000 (about USD 27,000 as of the end of January 2013) per employee per violation.

Work permit and visa

Under Russian immigration law, expatriate employees have the right to work in Russia only if they hold individual work permits. In addition, employers can employ foreign personnel only if they possess employment permits (i.e. have permission to employ foreign personnel).

This requirement does not apply to foreign nationals permanently residing in Russia on a permanent residency permit or several categories of foreign employees engaged, for instance, in the assembly of technical equipment delivered to Russia. Various exceptions are also in place for employees from CIS countries. Employers do not have to obtain an employment permit to hire employees from CIS countries but they should notify the state authorities of their employment.

Employment and work permits are generally issued for one year and specify a particular Russian region. They cannot be renewed and require reapplication upon expiration.

The Russian immigration authorities will not issue employment or work permits on the basis of secondment agreements. Only a direct employment contract under the Labour Code and relevant laws can serve as the basis for issuing employment and work permits.

Work permit documents are obtained on a quota basis. Companies intending to hire foreigners must submit a request for a quota every year before 1 May for the following year. Failure to apply for a quota may result in significant difficulties in employing foreign nationals.

The Russian government issues a list of profession not requiring a quota every year. Usually, the list includes the senior management of Russian companies and branch/representative offices, as well as less common professions such as IT security specialists or engineers.

It takes up to three months to obtain authorisation documents and the process can only begin once company has been duly established. Employment during the pending period is prohibited.

Once a foreign employee has obtained their individual work permit, they are entitled to stay and work in Russia on the basis of a work visa.

The authorities must be notified every time a foreign person enters or leaves Russia. The same rule applies for family members.

The immigration authorities have become more stringent in making sure that foreigners' visas comply with their stated purpose of stay in Russia. It is prohibited to work in Russia on a business visa. A business visa is issued specifically for business trips to Russia (e.g. conducting negotiations, concluding or extending business contracts, or participating in auctions, exhibitions and other business events).

Foreign nationals are entitled to stay in Russia on a business visa for no more than 90 calendar days out of a 180-day period. These restrictions do not apply to work visas. Business visas are issued for the period of up to one year. However, under the amendments introduced into Russian law at the end of 2012, a business visa may be issued for the period up to five years for a person if he/she is the representative of a major foreign company with major investments in the Russian economy or is participating in major investment projects (such as the Skolkovo Innovation Centre of International Financial Centre).

Accompanying family members should obtain separate work permits if they wish to find a job. Family members receive special visas based on the work visa of the employed family member.

Failure to comply with immigration rules may result in fines of up to RUB 800,000 (about USD 27,000 as of the end of January 2013) per employee per violation.

Highly qualified specialist (HQS) status for foreign personnel

In 2010, the Russian Government approved a new simplified procedure for foreign personnel eligible for highly qualified specialist (HQS) status, which is available to foreign employees earning a salary of at least RUB 2 million per year. No quotas are required for this category of expatriates and the procedure is only for obtaining individual work permits. The employer's company is not required to obtain any additional permits to hire such personnel. Furthermore, HQS personnel can obtain work permits and visas valid for up to three years and cover several Russian regions at the same time. A foreign HQS can receive a work permit in just 15 working days. Although HQS applications are now only accepted by the Federal Migration Service's Moscow and St. Petersburg offices, this may change in the future.

Under immigration law, a foreign HQS and his/her accompanying family members, which include spouses, children, parents, brothers, sisters and grandparents, can obtain residency permits valid for the duration of his/her employment contract.

Upon obtaining a work permit, a HQS must be registered with the tax authorities by his/her employer and receive a Russian taxpayer's individual number (TIN). The HQS' employer is considered the taxpayer in relation to the foreign employee's personal income and must pay personal income tax (PIT) on behalf of the HQS. Also, the employer must inform the immigration authorities about this in every quarter.

The employer is also responsible for concluding a voluntary medical insurance agreement (or a relevant agreement for provision of medical services) for the HQS and his/her accompanying family members effective as of the date of their arrival in Russia.

6.5 Concluding employment contracts

The employment contract with the terms of employment must be concluded in written form with every employee and published in two copies. Both parties should sign each copy.

As a general rule, employment contracts are concluded for an indefinite term. A fixed-term employment contract (no more than five years) may also be concluded, but only in those circumstances specified in the Labour Code or other federal laws.

Before an employment contract is concluded, the employer must familiarise the employee with the relevant internal company policies that directly may affect his/her work.

6.6 Amending employment contracts

Employment contracts can only be amended by agreement of the parties, except for those cases specified in the Labour Code.

For instance, provided that a special procedure is observed, the employer has the right to change the terms of an employee's employment contract unilaterally with the exception of the employee's role. These changes require two months' notice and must be prompted by a change in the organisational and technical terms of the employment (i.e. a change in the technology or method of production, structural reorganisation of production, etc.) in which the existing terms cannot be continued. The employer is required to give the employee two months' notice of any relevant forthcoming changes. The employee then has two choices in such a situation, either to accept the new terms and conditions or be dismissed on special grounds.

6.7 Terminating employment contracts

Employment contracts may only be terminated based on the grounds set out in Russian law. Only in exceptional cases can the parties to an employment contract provide additional grounds for its termination (e.g. a general director's employment contract).

The procedure for terminating the employment contract is dependent on the grounds stipulated.. For example, if an employee wants to terminate an employment contract unilaterally, he/she must notify his employer at least two weeks prior to the termination, or at least one month if the individual concerned is a general director. The severance allowance to be paid to the employee also depends on the grounds for termination. Thus, in cases where an employment contract with a general director should be terminated following a relevant corporate decision, the employer must pay the general director severance allowance equal to three average monthly salaries. The Labour Code establishes additional protection for a number of employee categories regarding dismissal, including trade union members, female employees and employees with children.

6.8 Secondment arrangements

Secondments are widespread in foreign jurisdictions and used by numerous Russian and multinational companies in Russia. Russian labour law currently does not strictly regulate the hiring out of personnel. Therefore, employers engaged in secondment may face additional risks. It is impossible to obtain work permit documents for expatriates based on a secondment agreement.

A draft law to prohibit secondment agreements has been submitted to the State Duma for review.

6.9 Trade unions

Trade union activity is regulated under the Labour Code and Federal Law No 10-FZ of 12 January 1996 "On Trade Unions, their Rights and Guarantees of their Activities".

The Labour Code stipulates that an employer should bear in mind the position of a trade union before going forward with certain internal regulations (i.e. internal policies) or dismissing employees who hold union membership.





7. Accounting and audit requirements

7.1 Accounting

Accounting requirements are spelled out in Federal Laws No 402-FZ “On Accounting” and No 208-FZ “On Consolidated Financial Statements”. The Ministry of Finance has adopted Russian accounting standards.

Accounting entries are recorded in line with the Chart of Accounts and Instructions for application which has been adopted by the Ministry of Finance.

Statutory financial statements to be prepared on a standalone basis include: the balance sheet, statement of financial results, statement of changes in equity, statement of cash flows, and notes to the financial statements.

The reporting period is the calendar year from 1 January to 31 December.

Financial statements are annually submitted to the entity’s owners, the Federal Statistics Service

and tax authorities. Annual financial statements should be submitted to the Federal Statistics Service and to the tax authorities within three months after year’s end. Russian legislation may also require submissions to other authorities.

Interim financial statements should be prepared on time and submitted to authorities mentioned in Russian legislation (for instance, the financial statements of insurance companies and issuers). Furthermore, an entity may establish interim periods at its owners’ discretion.

Consolidated financial statements should be prepared according to International Financial Reporting Standards (IFRS) [Federal Law No 208-FZ “On Consolidated Financial Statements”].

Securities issuers should publish standalone financial statements.

Consolidated financial statements must be published.

Entities subject to mandatory audit include:
companies with net revenue above RUB 400 million
(around USD 13 million)

**400
million**

7.2 Auditing

Auditing requirements are set out in Federal Law No 307-FZ “On Auditing”. The Ministry of Finance has adopted these standards on auditing.

Statutory audits are required every year for standalone financial statements of companies incorporated in the Russian Federation, as well as for consolidated financial statements.

Entities subject to mandatory audit include: companies with net revenue³¹ above RUB 400 million (around USD 13 million); companies with total assets over RUB 60 million (around USD 2 million); all listed companies; professional players on the securities market; clearing companies; currency exchanges; private pension funds; management companies of share investment funds; mutual investment funds; open joint stock companies; credit organisations; credit reference bureaus; insurance companies; mutual insurance companies; commodities or securities exchanges; share investment funds; companies in which the state owns at least 25%; state corporations and state companies.

Representative offices and branches of foreign companies with operations in the Russian Federation are not subject to statutory audit requirements.



³¹ Net revenue and total asset thresholds are taken from financial statements for the previous year. Once an entity crosses the threshold, it is subject to mandatory audit in the following year.



8. Tax system and administration

Russia's current tax system is relatively new, and many tax concepts and issues that are standard in most market economies are just beginning to emerge in Russia. As these new concepts are embraced by the Russian authorities, they are often applied in a different way from in the West, or in other countries with developing tax systems.

Today, tax reform, in terms of codification and the elimination of multiple tiers of regulations has largely been completed. The Russian Tax Code provides a summary of the general tax principles, the rights and obligations of the taxpayers and tax authorities, an outline of the taxes payable, and other provisions.

The government is planning to introduce certain anti-avoidance provisions (including CFC rules, the concept of beneficial owner, rules for determining corporations' tax residence based on standard principles applied in international practice, and some amendments concerning financing structures). In the meantime, guidance from the higher courts lays out several anti-avoidance approaches, including the concept of unjustified tax benefit. The fiscal authorities adopted these approaches and are fighting aggressive tax avoidance. In so doing, they are beginning to take an approach that, at its core, involves the primacy of substance over form.

568,000

An annual salary under RUB 568,000 (approx. EUR 14,200) per employee is subject to contributions at a consolidated rate of 30%.

8.1 Transfer pricing legislation

New transfer pricing legislation came into effect on 1 January 2012. In contrast to previous Russian transfer pricing rules, the new legislation is more elaborate and generally better aligned to the international transfer pricing principles developed by the Organisation for Economic Co-operation and Development (OECD).

The main changes are the following:

- change in the list of transactions where the Russian tax authorities may place controls on prices for tax purposes;
- expansion of the list of related parties;
- burden of proof that prices in controlled transactions do not correspond to the market will rest with the Russian tax authorities;
- Introduction of the arm's-length principle as the fundamental principle of Russian transfer pricing rules;
- abolishment of the 'safe harbor' provision (20% deviation of controlled transaction prices from market prices that was earlier allowed);
- expansion of the list of information sources for determining market prices;
- formally introduction of functional analysis as a comparability factor;
- introduction of new methods for determining market prices, i.e. transactional net margin and profit split methods;
- introduction of requirements for reporting and transfer pricing documentation;
- introduction of special transfer pricing audits by the Federal Tax Service;
- introduction of penalties for non-compliance with requirements to maintain transfer pricing documentation and report certain transactions;
- introduction of unilateral and multilateral APAs for Russian companies registered as the 'largest' taxpayers.

8.2 Consolidated taxpayer regime

A new consolidated taxpayer regime is open to Russian groups effective 1 January 2012.

A group can comprise two or more Russian organisations where the direct or indirect equity interest of one member in the charter/share capital of the other members comes to at least 90%. All group members should meet the following requirements to establish and apply this regime in 2013:

- at least RUB 10 billion in total profits tax, VAT, excise tax, and MRET paid during 2011;
- at least RUB 100 billion in sales proceeds and other income in 2011;
- total cost of assets of at least RUB 300 billion on 31 December 2011.

Using this regime has several advantages. Firstly, transactions among members are not controllable under the new transfer pricing legislation (with the exception of transactions with mineral resources subject to MRET at a controlled percentage rate). Secondly, for the purposes of calculating profits tax, consolidation of members' profits and losses is possible.

8.3 Social contributions

An annual salary under RUB 568,000 (approximately EUR 14,200) per employee is subject to contributions at a consolidated rate of 30%. An additional 10% charge is imposed on an annual salary that exceeds RUB 568,000 per employee.

Remuneration of foreign nationals temporarily staying in Russia is covered by pension insurance contributions at 22% at up to RUB 568,000 and 10% top up charge on remuneration paid in excess of this level. The only exception is made for HQS (with the respective work permit) and employees who have entered into a labour contract with a term of less than six months.



9. Corporate income taxes

9.1 Profits tax

The maximum profits tax rate for all taxpayers in the Russian Federation is 20% (2% paid to the federal budget and 18% paid to the budgets of constituent regions). The amount payable to the budgets of constituent regions may be reduced by such regions and the minimum tax rate can decrease to 15.5% (e.g. the rate of 15.5% is established for certain categories of taxpayers located in the Smolensk, Arkhangelsk, Samara, Kaluga and Ulyanovsk regions).

Russian legal entities must pay tax on their worldwide income (credit relief is available for foreign tax paid and worth up to the Russian tax liability that would have been due on the same amount under Russian rules).

The maximum profits tax rate for all taxpayers in the Russian Federation is 20%

20%

Foreign legal entities pay tax on Russia-source income derived through a permanent establishment (PE) (at a rate of 20% and are also subject to withholding tax (WHT) on income from Russian sources not related to a PE (at rates varying between 10% and 20%, depending on the type of income and the method used for calculations).

9.2 Corporate residence

Russian tax legislation currently does not define corporate residence. The tax system in Russia makes a distinction between taxation of Russian and foreign legal entities based on their incorporation.

9.3 Permanent establishment (PE)

A PE is broadly defined as ‘a branch, division, office, bureau, agency, or any other place through which a foreign legal entity regularly carries out its business activities in Russia’. Russia’s various double tax treaties (DTTs) may define a PE differently. Conducting business through an agent also may create a taxable PE in Russia.





10. Value-added tax (VAT)

VAT is a federal tax in Russia, payable to the federal budget.

There is no separate VAT registration in Russia. The established general tax registration requirements are applicable to all taxes, including VAT.

Taxpayers follow a “classical” input-output VAT system, whereby the VAT payer generally accounts for VAT on the full sales price of the transaction and is entitled to recover input VAT incurred on inventory costs and other related business expenses. Although not originally based on the European Union (EU) model, Russia’s VAT regime has moved toward it. However, it still currently differs from the EU VAT system in multiple ways.

10.1 Output VAT

VAT is applicable to the value of goods, work, services, or property rights supplied in Russia. The standard VAT rate is 18% in Russia (with a lower rate of 10% applicable for certain basic foodstuffs, children's clothing, medicines and medical products, printed publications, etc.). The same VAT rate applies for goods imported into Russia.

Export of goods, their international transportation and related freight forwarding services, international passenger transportation, and certain other deliveries are eligible for a zeroed rate with the right to recovery of input VAT. Application of the zero VAT rate and recovery of input VAT can be confirmed by submitting a number of documents to the tax authorities within a certain timeframe. Special rules cover document confirmation of the right to tax exports to Customs Union countries at a zero rate, including the right for recovery of VAT input.

The standard VAT rate is 18% in Russia



18%

The list of VAT-exempt deliveries of goods and services includes basic banking and insurance services, educational services by certified establishments, sales of certain essential medical equipment, domestic passenger transportation, and other services deemed vital for the public good. Most foreign legal entities' foreign offices (as well as the accredited employees at these offices) may be exempt from VAT on property rentals. Provision of VAT-exempt services does not provide the right for recovery of related input VAT. Instead, costs associated with non-recoverable input VAT are, in most cases, deductible for profits tax purposes.

10.2 Withholding VAT

Russian VAT law includes rules for determining the provision of service in terms of VAT. These rules put services into different categories in order to determine where they can be provided for VAT purposes. For example, certain services should be provided at their place of implementation. Other services should take place where the buyer carries out the activities or where immovable property might be located.

Under the reverse-charge mechanism, a Russian company usually has to include VAT in any payment it makes to a non-tax registered foreign company if the payment is for the provision of goods or services in Russia, based on the applicable VAT rule for location of provision. In such circumstances, the Russian buyer should act as a tax agent for Russian VAT purposes by withholding Russian VAT at the rate of 18/118 from payments to a foreign supplier and pay the withheld VAT to the Russian budget. VAT withheld can be recovered by Russian taxpayers in accordance with the standard input VAT recovery rules as stipulated by law.

10.3 Input VAT recovery

Generally, taxpayers are eligible to recover input VAT. Taxpayers usually are eligible to recover input VAT from the purchase of goods, works, services, or property rights, provided that the input VAT recovery rules set out in Russian legislation are met, namely, among which are the following:

- Input VAT should relate to purchases the purposes of carrying out VATable activities;
- Respective goods, works, and services should be reported in the taxpayer's accounts;
- Proper back-up documentation should be available (e.g. VAT invoices, documents confirming the payment of VAT at customs, etc).

Russian VAT law does not allow for the recovery of input VAT if it for expenses incurred to perform non-VATable or VAT exempt activities.

In turn, where both VAT exempt and VATable activities are performed by the taxpayer, the latter is required to keep separate accounting of its supplies and develop an input VAT allocation methodology for proper input VAT recovery.

10.4 VAT compliance requirements

Each taxpayer providing goods, works, services, or property rights must issue VAT invoices and issue them to customers. VAT invoices must be issued within five days after the provision has occurred. There is a standard form for VAT invoices, established by the Government. Compliance with invoicing requirements is critical to the buyer's ability to recover input VAT.

E-invoicing is also allowed under the Russian Tax Code. E-invoicing requires digital signature and data transfer via operators and is subject to mutual agreement of all parties to the transaction. Operators are companies who provide services for exchange of open and confidential information via telecommunication channels.

Incoming and outgoing VAT invoices usually must be registered by taxpayers in sales and purchases books, as well as a register of incoming and outgoing VAT invoices.

VAT returns must be submitted to the tax authorities every quarter. VAT must be paid to the Russian budget after the end of each quarter in three instalments by the 20th day of each of the three consecutive months following the quarter. This applies to the remittance of VAT withheld by Russian buyers under the reverse charge mechanism, which is to be transferred to the Russian budget at the date of the external payment.

10.5 Import VAT

Import VAT is payable at customs upon importation of goods. The tax base for import VAT purposes is generally the customs value of the imported goods, including excise payments. Either an 18% or 10% VAT rate may apply to the import of goods into Russia, depending on the specific type of goods.

A limited range of goods is eligible for import VAT exemptions. The list of such goods includes, for example, certain medical products, technical equipment (including components and spare parts to such equipment) if no analogous equipment is produced in Russia, etc.



11. Other taxes

11.1 Import duties

In addition to VAT, customs duties are levied on assets imported into the Russian Federation. The rate varies according to the tariff code of the goods imported and the country of origin (the rate usually varies between 0% of 20% of the customs value of imported goods). A special break from customs duties is in place for goods that contribute to the charter capital of Russian companies with foreign investment.

The creation of the Customs Union and deeper integration for Russia, Belarus, and Kazakhstan (hereinafter 'the CU') has helped to unify customs legislation of CU members, as well as form a single customs territory, in which goods traded between CU member states can be transported without any customs clearance. Members of the CU should apply unified customs tariffs and customs valuation methodology, general rules of non-tariff regulation, uniform technical regulations, etc.

11.2 Customs processing fee

Goods transported across the Russian Federation's customs border are subject to a customs processing fee at a flat rate. The fee depends on a customs value of transported goods. The fee is usually low.

11.3 Excise duty

Excise taxes apply to the production and import of cars, tobacco, alcohol, petrol, and lubricants. Special excise rates for each type of excisable goods are spelled out in the Tax Code. The rates may vary and are based on multiple factors.

11.4 Property tax

The maximum property tax rate comes to 2.2%. In addition, regional legislative bodies have the right to reduce this rate. The property tax base includes only the annual book value of fixed assets recorded in the taxpayer's balance sheet (including leased out property). Intangible assets, inventories, work-in-progress, and financial assets are not subject to property tax in Russia.

Effective 2013, movable property recorded as fixed assets from 1 January 2013 is not subject to property tax.

However, property held by certain companies, which was earlier exempted, will be taxed. The tax rates applicable under the constituent regions; laws on to public rail roads, trunk pipelines, power lines and facilities that are a technical component of the aforementioned facilities, cannot exceed 0.4% in 2013, 0.7% in 2014, 1% in 2015, 1.3% in 2016, 1.6% in 2017, and 1.9% in 2018.

11.5 Transport tax

A transport tax is imposed on certain types of land, water, and air transport registered in Russia. Fixed rates apply (per unit of horsepower, gross tonnage, or unit of transport), which are differentiated based on engine capacity, gross tonnage, and type of transport. Actual rates in the regions may be subject to a maximum ten-fold increase or equivalent decrease by the legislative bodies in constituent subjects of the Russian federation. Regional legislative authorities also establish reporting and payment rules.





12. Corporate taxation

12. 1 Corporate tax systems

Branch income

Foreign legal entities pay tax on profits attributable to a PE. A PE's profits are tabulated largely on the same basis as Russian legal entities, including the composition of tax-deductible expenses. The tax code does not specifically provide for the deductibility of expenses incurred abroad by a head office owing to the operations of its PE in Russia (including a reasonable allocation of administration costs) even though most DTTs provide for such an option.

A new provision on a PE's taxable include has been included in tax legislation (effective as of 1 January 2012). A PE's taxable income in Russia should be determined by taking into account the PE's functions, assets, and economic/commercial risks. This provision does not contain any guidance on any specific transfer pricing methods that taxpayers need to follow.

If a foreign legal entity provides free-of-charge preparatory and/or auxiliary services for the benefit of third parties, a PE is considered to have been formed and the tax base is calculated as 20% of its expenses for such operations.

Foreign entities operating through a PE in Russia should follow the filing and payment schedules established for Russian legal entities. They do not have to make monthly advance payments but only pay profits tax on a quarterly and annual basis.

Income determination

A calendar year comprises the accounting period in Russia. Different periods are not permitted. The taxable base is calculated on an accrual basis (only small-scale taxpayers are still allowed to use a cash basis).

Taxable income is to be tabulated following the rules and principles set out in the tax code. In addition, taxpayers must maintain tax accounting registers. Statutory accounts may be used for computing tax items for which accounting methods are the same. In practice, most taxpayers use statutory accounts as a basis and make adjustments to arrive at the taxable income.

Inventory valuation

Inventories can be valued using one of the following methods: first in first out (FIFO), last in first out (LIFO), average cost, and individual unit cost.

Capital gains

Capital gains are subject to the same 20% profits tax rate and are added to ordinary income to arrive at the taxable income.

Four separate tax baskets are calculated for tax purposes: (i) results of general operations, (ii) results of operations with listed securities, (iii) results of operations with non-listed securities, and (iv) results of operations with non-listed derivatives. A loss in one basket cannot be offset with income in another basket. Results of operations with listed derivatives are included into the general tax basket.

Gains from the sale of fixed assets and other property are equal to the difference between the sale price and their net book value for tax purposes. Losses from the sale of fixed assets should be deducted in equal monthly installments during the period, defined as the difference between their expected useful life and the actual time of use.

An important exemption was introduced for capital gains from the sale or other disposal (including redemption) of shares in Russian entities (interests in Russian entities' charter capital), provided that, as of the date of sale, they had been continuously held by the taxpayer on the basis of a right of ownership or another proprietary right for more than five years. One of the following conditions must be met in order to apply a zero tax rate:

- the shares have been non-listed securities during the entire time of the taxpayer's ownership of these shares;
- the shares are listed securities, and the company issuing shares has been part of the technology/innovative sector during the entire time of taxpayer's ownership of these shares;

- as of the date of taxpayer's acquisition, the shares are qualified as non-listed securities and, as of the date of their sale by the taxpayer or any other disposal (including redemption) by the taxpayer, they are listed securities in the high technology/innovative sector.

Beneficial tax treatment may only apply to shares and interests in charter capital acquired by taxpayers after 1 January 2011 (this means that the exemption may be first used in 2016).

Dividend income

Dividends received by Russian legal entities from Russian or foreign legal entities are taxed in Russia at a 9% flat rate.

Dividends received from 'strategic investments' are exempt from Russian income tax. An investment qualifies as strategic when:

- the owner (recipient of dividends) holds at least 50% of the capital of the dividend payer or owns depository receipts entitling it to receive at least 50% of total dividends payable; and
- the share or depository receipts have been owned for at least 365 calendar days on the day dividends are declared.

Dividends from companies residing in 'offshore' zones with preferential tax regimes are not eligible for tax exemption. The Ministry of Finance has compiled a list of offshore zones.

Tax on dividends from abroad withheld in the source country may be credited against Russian tax.

A standard 15% tax rate is applicable to dividends paid by Russian legal entities to foreign legal entities. The tax should be withheld by the Russian legal entity paying dividends. The rate may be reduced based on a relevant DTT, usually to 10% or 5%.

Interest income

Interest income is taxed on an accrual basis. A standard tax rate of 20% is applied to interest income with the exception of interest on state and municipal securities, which is taxed at 0%, 9%, or 15%, depending on the type of security. The rate may be reduced, usually to zero, according to a relevant tax treaty.

Exchange gains and losses

Foreign exchange gains and losses are recognised for tax purposes on an accrual basis. However, gains and losses from settlements in a local currency in an amount tied to a foreign currency are taxable (deductible) on payment.

Capital gains are subject to the same 20% profits tax rate and are added to ordinary income to arrive at the taxable income.

20%

Foreign income

Russian legal entities pay tax on their worldwide income. Credit relief is available for foreign taxes paid and equal up to total Russian tax liability that would have been due on the same amount under Russian rules.

The effective tax legislation does not contain provisions that allow tax deferral in respect to foreign income.

12.2 Tax administration

All taxpayers are required to obtain tax registration and be assigned a taxpayer identification number regardless of whether their activities are subject to Russian taxation.

Returns

An annual profits tax return must be filed by 28 March of the year following the end of the reporting year.

Payments

Companies pay advance profits tax payments every month. The final payment for the year is due by 28 March of the following year.

12.3 Deductions

Expenses are deducted on an accrual basis. The main criteria for deductibility of expenses is that an expense is (i) incurred during income-generating activity, (ii) properly documented, and (iii) not mentioned in the tax code as non-deductible for tax purposes.

Depreciation and amortisation

Two methods of depreciation can be used: the straight-line method and the declining-balance method. The sizes of an asset's useful life for tax purposes are established in the Classification of Fixed Assets adopted by the Russian government.

Fixed asset	Useful life (years)
Personal computer	2 to 3
Passenger car	3 to 5
Truck (capacity more than 5 tonnes)	7 to 10
Aircraft	10 to 15
Blast furnace	20 to 25

Accelerated depreciation is permitted for leased property, where a special ratio of up to three may be applied (with some exceptions).

Accelerated depreciation in a harsh environment and/or during increased turnover has been abolished as of 2014.

In addition, an upfront premium is allowed, which means that a taxpayer has the right to deduct 10% (or 30% for certain fixed assets) of the cost of fixed assets purchased (or constructed) in the month when depreciation started. The balance is depreciated over the asset's useful life. A premium must be recaptured if the relevant asset is sold within five years of its acquisition (the requirement to reclaim does not apply to sales to unrelated parties as of 2013).

Intangible assets are amortised over their useful life (or over ten years if their useful life cannot be determined).

Interest expense

Interest expenses are deductible within the following limits:

- the average interest rate on similar loans obtained from Russian lenders during a quarter multiplied by 1.2;
- if there are no similar loans, or at the taxpayer's discretion, the following limits are applied:
 - For loans denominated in a foreign currency: Central Bank of Russia's refinancing rate multiplied by 0.8 (6,6% as of 31 January 2013);
 - For loans denominated in roubles: the refinancing rate of the Central Bank of Russia multiplied by 1.8 (14,85% as of 31 January 2013).

The Russian Tax Code states that interest on loans received from foreign shareholders (as well as their Russian affiliates, or loans guaranteed by foreign shareholders or their Russian affiliates) who own more than 20% of capital, is deductible, provided that the loans do not exceed the total equity by three times (12.5 times for banks and leasing companies). If the loans go over this limit, excess interest is reclassified for taxation purposes as dividends paid to foreign shareholders. These dividends are not deductible for profits tax purposes and are subject to WHT at the rate of 15% (treaty benefits may apply to reduce the rate).

Bad debts

Losses in the form bad debt, which has been written off, are usually deductible. Companies may create a bad debt reserve. The method of accrual for a bad debt reserve for tax purposes may differ from that in financial accounting since it is solely based on the overdue payment period (i.e. if the delay exceeds 90 days, the total account receivable is included in the reserve).

Research and development (R&D) expenses

R&D expenses (along with R&D with a negative result) are usually deductible within one year after completion. Certain R&D expenses may be deducted using at ratio of 1.5. The Russian Government has compiled a list of these R&D types. A provision for future R&D expenses may be accrued for tax purposes.

Insurance premiums

Expenses for all types of obligatory insurance are deductible and are subject to state tariff limitations where established. Voluntary insurance expenses are deductible as long as they relate to damage insurance and losses occurring in relation to certain classes of assets, and insurance on construction risks. Expenses for contract liability insurance are deductible as long as the insurance is required by an international treaty to which Russia is a party or a generally accepted international trade custom.

Long-term life and pension insurance is deductible within 12% of the payroll fund. Voluntary medical insurance is deductible within 6% of the payroll fund.

Net operating and capital losses

Tax losses may be carried forward for up to ten years without limitation (i.e. they can be used to offset total taxable profit before a loss carryforward deduction). However, carryback of losses is prohibited.

Losses from the sale of fixed assets are recognised evenly during their remaining useful life.

Losses and income from different tax baskets cannot be offset (please see Capital gains in the Income determination section for more details).

Payments to foreign affiliates

There are no special tax provisions for the deductibility of payments to foreign affiliates for services rendered. They may be entirely deducted if general deductibility criteria are met. Charges for administrative support provided by foreign affiliates may be deductible, but due care should be taken with regard to documentary support of the nature and actually provision of the service.




 12%

Long-term life and pension insurance
is deductible within 12% of the payroll fund.

12.4 Tax credits and incentives

The following incentives now exist in Russia:

- Regional incentives granted by regional or local authorities with respect to taxes paid to their budgets;
- Special tax regimes in special economic zones (SEZs);
- Incentives for certain activities (e.g. work in R&D, information technology, etc);
- Incentives for particular projects (e.g. Skolkovo, the Olympic Winter Games in Sochi, etc).

The incentives are briefly described below.

Furthermore, Russian tax law provides for special tax regimes meant to support small and medium-size businesses. Such practices include a unified tax regime, simplified tax regime, and a unified agricultural tax.

Regional incentives

Regional incentives such as reduced rates for taxes payable to regional budgets (mostly profits tax and property tax) are granted to certain classes of taxpayers (typically large investors or entities operating in specific industries). The range of regional incentives and the willingness of regional authorities to grant them have been diminishing over time.

Special economic zones (SEZs)

The following types of SEZ are established in Russia:

- technical research and operational zones for scientific projects;
- industrial zones to develop industrial production;
- tourism-recreation zones for the development and effective use Russia's tourist potential;
- port zones.

SEZ residents may take advantage of different combinations of benefits, such as reduced profits tax, exemption from property tax and land tax, and, in some cases, exemption from customs duty and VAT.

Activities incentives

The following 'activities' incentives are available to taxpayers in Russia:

- certain R&D services are exempt from VAT;
- certain R&D service-related expenses, as listed by the government, are deductible using a ratio of 1.5;
- fixed assets used in science and technology may be amortised with an accelerated rate of up to 3;
- reduced rates for contribution payments to social funds are in place for information technology (IT) companies.

Special project incentives

The following 'special project' incentives are available for taxpayers:

- participants in the Skolkovo innovation centre enjoy a number of benefits, the primary of which are the following: exemption from profits and property taxes, exemption from VAT obligations, and reduced rates for mandatory contributions to social funds;
- the 2014 Olympic Winter Games in Sochi. Current Russian tax legislation provides certain tax exemptions for the foreign and Russian organisers of the Games, the International Olympic Committee's marketing partners, and official broadcasting companies in relation to their work for and during the Games, as well as an exemption from personal income tax for income received by sportsmen during their participation at the Games.

Foreign tax credit

Credit relief is available for foreign taxes paid up to the amount of the Russian tax liability that would have been due on the same amount under Russian rules.

12.5 Withholding taxes

According to the tax code's general provisions, income received by a foreign legal entity and not attributed to a PE in Russia is subject to WHT in Russia (to be withheld at source). WHT rates are as follows:

- 15% on dividends and income from participation in Russian enterprises with foreign investments;
- 10% on freight income;
- 20% on certain other income from Russian sources, including royalties and interest;
- 20% of revenue or 20% of the margin on capital gains (from the sale of immovable property in Russia or non-listed shares in Russian subsidiaries where immovable property in Russia represents more than 50% of assets).

Taxation of the margin (rather than gross income received from the above sales) may be applied only if proper documentary support of expenses can be produced.

Income of foreign organisations, which do not have activity in Russia through a PE, from the sale of certain listed securities of Russian entities (and their derivatives) is not considered income derived from sources in Russia subject to WHT.

The list of exempt income (not subject to WHT) was extended by Federal Law of 29 June 2012 to include: (i) interest payments on Russian state securities, (ii) interest payments on tradable bonds that are issued in accordance with the laws of foreign states, and (iii) payments made by Russian companies to finance coupons on Eurobonds issued by special purpose vehicles incorporated outside of Russia. This latter exemption is in effect for Eurobonds issued until 1 January 2014.

Tax should be withheld by the tax agent and paid to the Russian budget. WHT rates may be reduced under a relevant DTT, the provisions of which may be applied upon confirmation of tax residence and should be provided by a foreign company to the Russian tax agent prior to the payment date (no advance permission from the Russian tax authorities is required) providing that general conditions have been fulfilled (proof of beneficial ownership, etc.).

The Russian tax authorities recognise the terms of former Union of Soviet Socialist Republics (USSR) treaties until renegotiation by the Russian government. Furthermore, the tax treaty network is constantly updated.

The list below is current as of 31 January 2013, and shows the WHT rates set out in the treaties.





13. Sports mega-events

13.1 Preparations for the XXII Olympic Winter Games and XI Paralympic Winter Games of 2014 in Sochi

Russia's first international winter sports centre is being created to host the 2014 Olympic and Paralympic Winter Games in Sochi.

Construction on a massive scale is taking place as part of preparations for the Games, with over 500 venues being built or modernised in Sochi and the surrounding area.

All 2014 Olympic and Paralympic sporting events will be held at 11 main competition venues in two concentrated areas: the Coastal Cluster on the Black Sea coast and the Mountain Cluster in the nearby Krasnaya Polyana valley of the Caucasus Mountains. A high-speed rail link between the two competition clusters will make these Winter Games the most compact ever.

After the Games, the Olympic venues will serve as sports centres, health resorts, and entertainment and commercial hubs, with some competition facilities even slated for relocation to nearby cities.

The resort city of Sochi is rapidly becoming one of Russia's most convenient and hospitable locations, both for everyday living and doing business. Among the facilities being built in connection with the Games preparations are over 100 hotels and other accommodations, power plants, and a total of 47 transport infrastructure venues.

Not only are sports venues and infrastructure in Sochi being built to "green standards", but their construction also fully factors in accessibility requirements for people with disabilities, which will be a big part of the Olympic and Paralympic Games' legacy.



The Olympic project is also aimed at increasing employment opportunities in Russia. To date, the Games preparation process has already helped create over 200,000 new jobs.

PwC Russia is proud to be a Partner and the Official Professional Services Provider of the Organizing Committee of the XXII Olympic Winter Games and XI Paralympic Winter Games 2014 in Sochi.

13.2 Formula One Grand Prix in Russia

Sochi will also host Formula One Grand Prix in 2014. On 14 October 2010, Formula One CEO Bernie Ecclestone signed a contract with Krasnodarskiy Krai in attendance of Russian Prime Minister Vladimir Putin] for the Grand Prix between 2014 and 2020.

The F1 racetrack will run through the Olympic Park in the Imereti Lowlands. Most of its venues will be integrated with 2014 Winter Olympics infrastructure, where F1 buildings will be used to accommodate the Sochi 2014 Organizing Committee's administrative services during the Olympic Games.

A Formula One Sochi festival was held on 17 July 2011 as part of preparations for the Russian Grand Prix.

In addition, four Formula One World Championship teams have visited Sochi, including Red Bull Racing, Lotus Renault GP, Marussia Virgin Racing and Scuderia Ferrari. F1 stars, such as Vitaly Petrov, Sebastien Buemi, Timo Glock and Jerome d'Ambrosio, have also made appearances in the city.

13.3 2018 FIFA World Cup

Russia was granted the right to host the 2018 FIFA World Cup on 2 December 2010. The 2018 FIFA World Cup will take place in 12 stadiums in 11 cities: Moscow, St. Petersburg, Kaliningrad, Nizhny Novgorod, Kazan, Samara, Saransk, Volgograd, Rostov-on-Don, Sochi and Ekaterinburg.

FIFA's decision is expected to speed infrastructure development across Russia. The host regions have requested some US\$18bn from the federal government for an infrastructure development programme that involves stadium construction and renovation as well as the expansion or improvement of both airports and roads.

Russia has generally under-invested in infrastructure since the collapse of the Soviet Union while demand has grown leading to severe bottlenecks. Events such as FIFA are a catalyst for the investment which is anyway needed. The plans could cause government borrowing to increase over the next three to four years but the programme should also encourage public-private partnerships and attract more foreign direct investment. Companies in the construction business, steelmakers, and transportation companies are likely to gain from an expected rise in infrastructure spending.

13.4 XXVII Summer Universiade in Kazan

In summer 2013, Kazan will host the XXVII Summer Universiade, or World Student Games. More than 13,500 athletes and officials from 170 countries will take part in competitions in 27 sports, and over 100,000 spectators are expected to attend.

The competitions will be held in 49 sports facilities concentrated in four areas of Kazan, of which 30 are being newly constructed for the event.

In addition to sports facilities, transport and supporting infrastructure has been developed for Universiade 2013 in Kazan, including a Universiade Village to house 13,500 people, RUB 39 billion worth of road repair and construction, and a new airport terminal.

PwC Russia is proud to be a Partner and the Official Professional Services Provider of the Executive Committee of Universiade 2013 in Kazan.





14. PwC in Russia

About PwC

- A global organisation with offices in 158 countries
- One of the world's leading employers of highly skilled professionals – more than 180,000 staff all over the world
- The largest professional services firm with an unmatched portfolio of client companies
- An organisation that recognises and meets its responsibilities to a broad community of stakeholders

Key facts about PwC Russia

- *First established in Russia as early as 1913; renewed its presence in the country in 1989*
- *The largest consultancy and audit business in the country (according to the rating agency Expert RA)*
- *Offices in Moscow, St Petersburg, Ekaterinburg, Kazan, Novosibirsk, Krasnodar, Yuzhno-Sakhalinsk, Voronezh and Vladikavkaz*
- *More than 2,300 professionals*

Our mission is to build public trust and enhance value for our clients and their stakeholders. By building trust, we support the efficient and transparent functioning of financial and commercial markets around the world. By enhancing value, we help companies achieve their business objectives. We pursue this mission through industry-focused assurance, tax and advisory services.

Thought leadership

PwC regularly carries out research, both in Russia and abroad, on issues relevant to the business community:

- The annual global CEO survey
- Cities of opportunity
- Changing the game. The outlook for the global sports market to 2015
- Game on. Mega-event infrastructure opportunities
- A world of difference – tomorrow's power utilities industry
- Transport & logistics 2030
- Global entertainment and media outlook: 2012 – 2016
- Banking banana skins
- HR benchmarking survey
- The global economic crime survey
- Prospects for the Russian automotive market



Our achievements

- *Tax consulting firm of the year in Russia – International Tax Review magazine, 2011*
- *Chambers & Partners recommends PwC Legal as one of the leading law firms in Russia in employment practice area (2012)*
- *PLC Which lawyer recommends PwC Legal as one of the leading law firms in Russia in the following categories: corporate & M&A, tax, labour and employee benefits (2012)*
- *European Transfer Pricing Firm of the Year – International Tax Review magazine, 2011*
- *PwC in Russia listed as the winner in the category Best Tax Firm, Russia as part of the Legal Awards 2011 programme, World Finance magazine.*
- *The Legal 500 recommends PwC as one of Russia's leading legal practices in the following categories: banking and finance, corporate and M&A (Moscow and St Petersburg), employment, energy and natural resources, shipping and transport, and tax.*
- *The Global Tax Monitor³² recognises PwC as the leading tax adviser globally, by reputation, with a very strong lead over the competition. These results are based on the year-ending Q2 2012 figures, with a sample size of 3,344 primary buyers of tax services globally. The Global Tax Monitor also recognises PwC as the leading tax adviser in Russia by reputation. These results are based on the year ending Q4 2012, with a sample size of 60 primary buyers of tax services in Russia.*

Corporate responsibility

Our corporate responsibility programme is a key factor in our successful development on the Russian market. Our goal is to integrate it ever further into our business, into our decision-making processes, and in so doing to raise our impact on society in the broadest possible sense.

Our approach to corporate responsibility, both globally and locally, at the PwC Russia level, remains unchanged – we consider it a key component of our business strategy. At PwC, we fully support the idea that companies have responsibilities to the local community, and are committed to operating in such a way so as to promote sustainability and prosperity at a local level. We strive to lead the way and articulate a vision of the future, thus facilitating the continued spread of socially responsible business practices. We do this by:

- supporting local communities in regions where we have a presence;
- minimizing the damage resulting from our impact on the environment;
- investing in the professional growth and development of our people;
- engaging in an active dialogue with our clients on corporate responsibility matters.

PwC Russia highlights:

- *Almost one third of our 101 lead partners are women*
- *59 hours of learning and development per employee were delivered over the reporting period*
- *1,550 hours of pro bono lectures were given in universities by PwC Russia staff*
- *33 university students from Perm, Novosibirsk, Krasnodar, Stavropol, Nizhny Novgorod, Nizhnevartovsk, Tomsk, Kazan and Ekaterinburg were awarded PwC Russia scholarships for the 2011-2012 academic year*
- *Over 200 volunteers contributed about 2,000 hours for community needs*
- *22 projects were carried out under our corporate philanthropy programme*
- *During the calendar year of 2011, we saved 1,368 trees*

³² Launched in 2000, the Global Tax Monitor (GTM) is an independent survey conducted by research agency TNS, that examines the competitive position of the top firms in the tax advisory market — globally, regionally, nationally and on an industry basis. It provides a comprehensive measure of firm reputation, client service and brand health, gained currently from just over 3,000 telephone interviews annually with key decision makers (CFOs and Tax Directors) in 34 key markets.

180,000

One of the world's leading employers of highly skilled professionals – more than 180,000 staff all over the world

Our services

- **Assurance Services**
 - Audits to International Financial Reporting Standards (IFRS) and US GAAP
 - Russian Statutory Audit
- **Advisory Services**
 - Transactions
 - Performance improvement
- **Tax and Legal Services**
 - Global compliance services
 - International tax structuring
 - Transfer pricing
 - Tax aspects of mergers and acquisitions
 - Indirect taxation and customs
 - Tax dispute resolution
 - International assignment services
 - Human resources services
 - Legal services
- **Client training**
- **Our industry practices**
 - Financial Services
 - Energy, Utilities and Mining
 - Consumer and Industrial Products
 - Technology, Communications, Entertainment and Media





Appendices

Appendix A

Main macroeconomic indicators of Russia in 2005 – 2012

	2005	2006	2007	2008	2009	2010	2011	2012
Gross domestic product (GDP), USD billion	764	990	1,300	1,661	1,223	1,487	1,850	1,954e
Gross domestic product (GDP), % y-o-y	106.4	108.2	108.5	105.2	92.2	104.5	104.3	103.4
Fixed capital investments, % y-o-y	110.9	116.7	122.7	109.9	84.3	106.0	108.3	n/a
CPI, % y-o-y	110.9	109.0	111.9	113.3	108.8	108.8	106.1	106.6
Volume of industrial production, % y-o-y	107.6	108.4	110.5	100.5	84.8	111.8	106.5	104.1
Gold and foreign exchange reserves, USD billion	182.2	303.7	478.8	426.3	439.5	479.4	498.6	537.6
FDI, USD billion	12.9	29.7	55.1	75.0	36.5	43.3	52.9	n/a

Source: IMF, Rosstat, Central Bank of Russia

Appendix B

List of countries with which Russia has concluded free trade agreements

1. Serbia	4. Belarus	7. Kyrgyzstan	10. Turkmenistan	13. Georgia
2. Montenegro	5. Azerbaijan	8. Tajikistan	11. Uzbekistan	
3. Ukraine	6. Armenia	9. Kazakhstan	12. Moldova	

Appendix C

Forecast of the economic development of Russia for 2012 – 2014

Economic development scenarios: C – optimistic
 3 – forced growth
 2 – moderately optimistic (basic)
 1 – conservative
 A – negative

	2011	2012	2013	2014	2015
Oil prices (Urals), USD/bbl.					
C			110	115	120
3			97	101	104
2	109	109	97	101	104
1			97	101	104
A			80	81	83
GDP, %					
C			3,9	4,3	4,6
3			4,6	5,3	6,4
2	4,3	3,5	3,7	4,3	4,5
1			2,7	2,9	3,3
A			0,5	2,0	3,0
Industry, %					
C			4,1	3,8	4,0
3			4,2	4,4	5,1
2	4,7	3,6	3,7	3,7	3,7
1			2,3	2,6	2,6
A			1,4	2,1	2,6
Fixed capital investments, %					
C			8,7	7,5	8,1
3			8,5	11,2	13,1
2	8,3	5,5	7,2	7,3	7,9
1			5,0	5,4	6,8
A			0,2	2,9	5,5
Real salaries and wages, %					
C			4,0	5,6	6,3
3			4,3	6,4	8,1
2	2,8	9,1	3,7	5,5	5,9
1			1,9	2,8	3,9
A			0,0	1,6	3,3
Retail trade turnover, %					
c			6,3	5,9	6,1
2			5,7	6,0	6,5
1	7,0	6,1	5,4	5,8	5,8
a			4,7	4,6	4,7
A			1,5	2,7	3,6
Total exports, USD billion					
c			554	589	623
2			508	533	562
1	522	534	500	522	545
a			500	522	544
A			431	431	443
Total imports, USD billion					
c			395	437	483
2			376	411	448
1	324	343	375	407	440
a			374	405	439
A			336	345	360

Source: Ministry of Economic Development of the Russian Federation

Appendix D

Tax rates	
Corporate income tax rates	<ul style="list-style-type: none"> 20% is the standard rate (effective from 1 January 2009), regional authorities can reduce it to 15.5%; 9% or 0% is the tax rate on dividend income; 15%, 9% or 0% is the tax rate on interest income on state securities (depending on the type of securities). 0% on capital gains from sale of Russian companies' shares (in selected cases and subject to 5-year holding period).
Tax depreciation rates	Straight-line and declining balance depreciation methods. The useful life of assets for the purposes of the straight-line method is established in the Classification of Fixed Assets, approved by the Russian Government. Accelerated depreciation for leased assets. A 30% and 10% depreciation premium (lump-sum deduction) is available in the month when depreciation starts (to be clawed-back if the asset is sold within five years from claiming the premium)
Withholding taxes	<ul style="list-style-type: none"> 15% on dividends and income from participation in Russian enterprises with foreign investments; 10% on international freight income; 20% on certain other income from Russian sources, including royalties and interest; 20% of revenue or 20% of margin in relation to capital gain (for sale of immovable property located in Russia or shares in Russian subsidiaries where immovable property located in Russia represents more than 50% of assets). Taxation of margin (rather than the whole amount of revenue received from the above sales) can be applied only if proper documentary support of expenses is available.
Property tax	<p>Maximum rate of 2.2% (subject to regional concessions) applies to:</p> <ul style="list-style-type: none"> annual net book value of fixed assets (for Russian entities and permanent establishments of foreign entities) value of real estate located in Russia (for foreign entities not having a permanent establishment in Russia)
Personal income tax	<p>For residents:</p> <ul style="list-style-type: none"> 13% standard rate (applied to the worldwide income of an individual); 9% for dividend income 35% for specific types of income (winnings, prizes and others). <p>For non-residents:</p> <ul style="list-style-type: none"> 30% standard rate (applied to income received from Russian sources); 13% for income received by foreign nationals in capacity of highly qualified specialists; 15% for dividend income.
Personal allowances (and/or credits)	<p>Main exemptions:</p> <ul style="list-style-type: none"> charity contributions; social expenses: e.g., education expenses including on children, medical expenses with the exception of expensive treatments (up to RUB 120,000 (approx. USD 4,000)); income from the sale of immovable and other property held for three years or more; income from the sale of immovable property and land plots held for less than three years in the amount of RUB 1m (approx. USD 33,300), or documented expenses; income from the sale of other property held for less than three years in the amount of RUB 250,000 (approx. USD 8,300), or documented expenses; income spent on the construction or purchase of premises or land acquired for the purpose of building a house (maximum RUB 2m; approx. USD 67,000) plus related interest payments. All objects should be located on Russian territory. This deduction can be granted only once in a lifetime. The deduction can be carried forward up to full utilisation; income from the sale of securities and derivatives in the amount of documented expenses.
Tax on foreign nationals working in Russia	No special tax on foreign nationals working in Russia
Wealth tax	None
Tax on foreign nationals working in Russia	No special tax on foreign nationals working in Russia
Estate and/or inheritance and/or gift tax rates	None (abolished from 1 January 2007)
Capital tax	None
Indirect taxes	<p>Value-added tax</p> <p>18% standard rate</p> <p>10% rate applicable to the sale of some types of goods (basic food products, medicines, etc.).</p> <p>0% rate for export sales, international transportation of goods and certain other transactions.</p> <p>Exemption from VAT is granted for the list of specific transactions.</p> <p>Excise</p> <p>Excise tax is imposed on alcohol and tobacco products, petrol, automobiles and motorcycles. The rates (specific and combined) depend on the type of excisable goods.</p>

Appendix E

List of Double Tax Treaties effective in Russia as of 31 January 2013, and indicates the WHT rates stipulated in the treaties

Treaty (Russia is one of contracting states)	Treaty benefits available from	Dividends (%)	Interest (%) (Note 1)	Royalties (%)	Construction site duration before creation of PE (months)
Albania	1 January 1998	10	10	10	12
Algeria	1 January 2009	5 (Note 2)/15	0/15	15	6 months and an aggregated period of more than 3 months in any 12-month period for furnishing services
Armenia	1 January 1999	5 (Note 3)/10	0	0	18
Australia	1 January 2004	5 (Note 4)/15	10	10	12
Austria	1 January 2003	5 (Note 5)/15	0	0	12
Azerbaijan	1 January 1999	10	0/10	10	12
Belarus	1 January 2001	15	0/10	10	No special provisions in the relevant DTT; local tax legislation provisions should apply
Belgium	1 January 2010	10	0/10	0	12
Botswana	1 January 2010	5 (Note 6)/10	0/10	10	6
Brazil	1 January 2010	10 (Note 7)/15	0/15	15	9
Bulgaria	1 January 1996	15	0/15	15	12
Canada	1 January 1998	10 (Note 8)/15	0/10	0 (Note 9)/10	12
China	1 January 1998	10	0/10	10	18
Croatia	1 January 1998	5 (Note 10)/10	10	10	12
Cuba	1 January 2011	5 (Note 11)/15	10	5	12
Cyprus	1 January 2000 (12)	5 (Note 13)/10	0	0	12
Czech Republic	1 January 1998	10	0	10	12 months and an aggregated period of more than 6 months in any 12-month period for furnishing services
Denmark	1 January 1998	10	0	0	12 months and an aggregated period of more than 365 days in any 18-month period for a drilling rig
Egypt	1 January 2001	10	0/15	15	6 months and an aggregated period of more than 6 months in any 12-month period for furnishing services
Finland	1 January 2003	5 (Note 14)/12	0	0	12 months and an 18-month period for particular types of construction work
France	1 January 2000	5 (Note 15)/10 (Note 16)/15	0	0	12
Germany	1 January 1997	5 (Note 17)/15	0	0	12
Greece	1 January 2008	5 (Note 18)/10	7	7	9
Hungary	1 January 1998	10	0	0	12
Iceland	1 January 2004	5 (Note 19)/15	0	0	12
India	1 January 1999	10	0/10	10	12 months (may be extended on agreement with the competent authorities)
Indonesia	1 January 2003	15	0/15	15	3
Iran	1 January 2003	5 (Note 20)/10	0 or 7.5	5	12
Ireland	1 January 1996	10	0	0	12
Israel	1 January 2001	10	0/10	10	12
Italy	1 January 1999	5 (Note 21)/10	10	0	12

Treaty (Russia is one of contracting states)	Treaty benefits available from	Dividends (%)	Interest (%) (Note 1)	Royalties (%)	Construction site duration before creation of PE (months)
Japan	1 January 1987	15	0/10	0 (Note 22)/10	12
Kazakhstan	1 January 1998	10	0/10	10	12
North Korea	1 January 2001	10	0	0	12 months and an aggregated period of more than 6 months in any 12-month period for furnishing services
South Korea	1 January 1996	5 (Note 23)/10	0	5	12 months (may be extended up to 24 months upon agreement with the competent authorities)
Kuwait	1 January 2004	0 (Note 24)/5	0	10	6 months and an aggregated period of more than 3 months in any 12-month period for furnishing services
Kyrgyzstan	1 January 2001	10	0/10	10	12
Latvia	1 January 2013	5 (Note 58)/10	5 (Note 59)/10	5	
Lebanon	1 January 2001	10	0/5	5	12
Lithuania	1 January 2006	5 (Note 25)/10	0/10	5 (Note 26)/10	9
Luxembourg	1 January 1998	10 (Note 27)/15	0	0	12
Macedonia	1 January 2001	10	10	10	12
Malaysia	1 January 1989	0/ 15 (Note 28)	0/15	10 (Note 29)/ 15 (Note 30)	12 months and more than a 6-month period for installation or assembly projects
Mali	1 January 2000	10 (Note 31)/15	0/15	0	No special provisions in the relevant DTT; local tax legislation provisions should apply
Mexico	1 January 2009	10	0/10	10	6
Moldova	1 January 1998	10	0	10	12
Mongolia	1 January 1998	10	0/10	rates in accordance with local legislation	24
Montenegro	1 January 1998	5 (Note 32)/15	10	10	18
Morocco	1 January 2000	5 (Note 33)/10	0/10	10	8
Namibia	1 January 2001	5 (Note 34)/10	0/10	5	9 months and more than a 6-month period for furnishing services and installation projects
Netherlands	1 January 1999	5 (Note 35)/15	0	0	12
New Zealand	1 January 2004	15	10	10	12
Norway	1 January 2003	10	0/10	0	12
Philippines	1 January 1998	15	0/15	15	183 days and an aggregate period of more than 183 days in any 12-month period for furnishing services
Poland	1 January 1994	10	0/10	10	12 months (may be extended up to 24 months upon agreement with the competent authorities)
Portugal	1 January 2003	10 (Note 36)/15	0/10	10	12
Qatar	1 January 2001	5	0/5	0	6
Romania	1 January 1996	15	0/15	10	12
Saudi Arabia	1 January 2011	0 (Note 37) or 5	0/5	10	6 months and an aggregated period of more than 6 months in any 12-month period for furnishing services
Serbia	1 January 1998	5 (Note 38)/ 15	10	10	18
Singapore	1 January 2010	5 (Note 39)/ 10	0/7.5	7.5	6 months and an aggregated period of more than 3 months in any 12-month period for furnishing services

Treaty (Russia is one of contracting states)	Treaty benefits available from	Dividends (%)	Interest (%) (Note 1)	Royalties (%)	Construction site duration before creation of PE (months)
Slovakia	1 January 1998	10	0	10	12
Slovenia	1 January 1998	10	10	10	12
South Africa	1 January 2001	10 (Note 40)/15	0/10	0	12
Spain	1 January 2001	5 (Note 41)/10 (Note 42)/15	0/5	5	12
Sri Lanka	1 January 2003	10 (Note 43)/15	0/10	10	6 months and an aggregated period of more than 183 days in any 12-month period for furnishing services
Sweden	1 January 1996	5 (Note 44)/15	0	0	12
Switzerland	1 January 1998	5 (Note 45)/15	0 (starting from 2013)	0	12
Syria	1 January 2004	15	0/10	4.5 (Note 48)/13.5 (Note 49)/18 (Note 50)	6
Tajikistan	1 January 2004	5 (Note 51)/10	0/10	0	24 months (may be extended on agreement with the competent authorities)
Thailand	1 January 2010	15	0/10	15	6 months and an aggregated period of more than 3 months in any 12-month period for furnishing services
Turkey	1 January 2000	10	0/10	10	18
Turkmenistan	1 January 2000	10	5	5	12
Ukraine	1 January 2000	5 (Note 52)/15	0/10	10	12
United Kingdom/ Russia	1 January 1998	10	0	0	12
United States/ Russia	1 January 1994	5 (Note 53)/10	0	0	18
Uzbekistan	1 January 1996	10	0/10	0	12
Venezuela	1 January 2010	10 (Note 54)/15	0/5 (Note 55)/10	10 (Note 56)/15	9
Vietnam	1 January 1997	10 (Note 57)/15	10	15	6 months and more than a 12-month period for furnishing services

Notes to the table (the criteria for application of reduced WHT rates):

- In most cases 0% tax rate applies to interest payments to the governments of contracting states and to payments guaranteed by the Government.
- If the resident of the other contracting state directly holds at least 25% of the capital of the company paying the dividends.
- If the resident of the other contracting state contributed at least USD 40,000 (or an equivalent amount in the domestic currency of either of the contracting states) to the authorised capital of the enterprise paying the dividends.
- If the following conditions are met:
 - Dividends are paid to a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends.
 - The resident of the other contracting state has invested a minimum of AUD (Australian dollars) 700,000, or an equivalent amount in Russian roubles, in the capital of that company.
 - If the dividends are paid by a company that is resident in Russia, the dividends are exempt from Australian tax.
- If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends and the participation exceeds USD 100,000 or an equivalent amount in any other currency.
- If the resident of the other contracting state directly holds at least 25% of the capital of the company paying the dividends.
- If the beneficial owner of the dividends directly holds at least 20% of the total capital of the company paying the dividends.
- If the beneficial owner of the dividends is a company that owns at least 10% of the voting stock (or in the case of Russia, if there is no voting stock, at least 10% of the statutory capital) of the company paying the dividends.
- 0% withholding tax is applied to the following types of Royalties:
 - Royalties for the production or reproduction of any literary, dramatic, musical, or other artistic work (but not including royalties for motion picture films or works on film or videotape or other means of reproduction for use in connection with television broadcasting)
 - Royalties for the use of, or the right to use, computer software
 - Royalties paid to unrelated party for the use of, or the right to use, any patent or any information concerning industrial, commercial, or scientific experience
- If the beneficial owner of the dividends is a company that directly holds at least 25% of the capital of the company paying the dividends (this share should be at least USD 100,000 or its equivalent in another currency).
- If the beneficial owner of the dividends is a company (excluding partnerships) that directly holds at least 25% of the capital of the company paying the dividends.
- The Protocol to the Russia-Cyprus DTT introduces some new provisions that will come into effect from 2013.

13. If the beneficial owner of the dividends has directly invested in the capital of the company not less than USD 100,000 or its equivalent in another currency (according to the new version effective from 2013 – 100,000 EUR).
14. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 30% of the capital of the company paying the dividends, and the foreign capital invested exceeds USD 100,000 or its equivalent in the national currencies of the contracting states at the moment when the dividends become due and payable.
15. If the following conditions are met:
 - a. Where the beneficial owner of the dividends has invested in the company paying the dividends, irrespective of the form or the nature of such investments, a total value of at least French francs 500,000 or the equivalent in another currency; as the value of each investment is appreciated as of the date it is made.
 - b. Where that beneficial owner is a company that is liable to tax on profits under the general tax laws of the contracting state of which it is a resident and which is exempt from such tax in respect of such dividends.
16. If only one of the conditions of 15 (a) or 15 (b) are met.
17. If the beneficial owner of the dividends is a company that directly holds at least 10% of the basic or common stock of the company paying the dividends and such capital share amounts to at least EUR 80,000 or the equivalent value in roubles.
18. If the beneficial owner of the dividends is a company (other than partnership) that directly holds at least 25% of the capital of the company paying the dividends.
19. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends and the foreign capital invested exceeds USD 100,000 or its equivalent in the national currency of the contracting state.
20. If the recipient of the dividends is a company (excluding partnership) that directly holds at least 25% of the capital of the company paying the dividends.
21. If the beneficial owner of the dividends is a company that directly holds at least 10% of the capital of the company paying the dividends (this share should be at least USD 100,000 or its equivalent in another currency).
22. Literary, artistic, or scientific work including cinematograph films and films or tapes for radio or television broadcasting.
23. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 30% of the capital of the company paying the dividends and invests not less than USD 100,000 or the equivalent in local currencies to the company paying the dividends.
24. The 0% rate applies to dividends paid to governmental agencies or financial institutions or companies controlled by the Government or companies where the Government holds at least 25% of the capital of the company paying the dividends and the capital directly invested by this beneficial owner is not less than USD 100,000 or the equivalent in the national currency of the contracting state.
25. If the beneficial owner of the dividends is a company (other than a partnership) which holds directly at least 25% of the capital of the company paying the dividends and the capital directly invested by this beneficial owner is not less than USD 100,000 or the equivalent amount in the national currency of a contracting state.
26. For the use of industrial, commercial, or scientific equipment.
27. If the beneficial owner of the dividends directly holds at least 30% of the capital of the company paying the dividends and of an acquisition price of at least European Currency Unit 75,000 or its equivalent in the national currency.
28. The 15% rate applies to profits received from a joint venture by a resident of Malaysia.
29. Any patent, trademark, design or model, plan, secret formula or process, or any copyright of scientific work, or for the use of, or the right to use, industrial, commercial, or scientific equipment, or for information concerning industrial, commercial, or scientific experience.
30. Cinematograph films, or tapes for radio or television broadcasting, any copyright of literary or artistic work.
31. If the invested amount equals or exceeds French Francs 1 million.
32. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends and has invested in it at least USD 100,000 or the equivalent in the national currencies of the contracting states.
33. If the beneficial owner of the dividends has invested in the capital of the company paying dividends of more than USD 500,000.
34. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 25% of the share capital of the company paying the dividends and has directly invested in the equity share capital of that company not less than USD 100,000 or its equivalent in another currency.
35. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends and has invested in it at least European Currency Unit 75,000 or its equivalent in the national currencies.
36. If the beneficial owner of the dividends is a company that, for an uninterrupted period of two years prior to the payment of the dividends, directly owned at least 25% of the capital of the company paying the dividends.
37. The 0% rate applies to dividends paid to governmental agencies or financial institutions.
38. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends and has invested in it at least USD 100,000 or its equivalent in the national currencies of the contracting states.
39. If the beneficial owner of the dividends is the government of the other contracting state or if the beneficial owner of the dividends is a company that directly holds at least 15% of the capital of the company paying the dividends and has invested in it at least USD 100,000 or its equivalent in other currencies.
40. If residents of the other contracting state hold at least 30% of the capital of the company paying the dividends and have directly invested in the equity share capital (authorised fund) of that company an amount of not less than USD 100,000 or its equivalent in the currency of the first state.
41. If the following conditions are met:
 - a. The beneficial owner of the dividends is a company (other than a partnership) that has invested at least European Currency Unit 100,000 or its equivalent in any other currency in the capital of the company paying the dividends.
 - b. Those dividends are exempt from tax in the other contracting state.
42. If only one of the conditions of 41 (a) or 41 (b) are met.
43. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 25% of the capital of the company paying the dividends.
44. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds 100% of the capital of the company paying the dividends; or in the case of a joint venture not less than 30% of the capital of the joint venture; and in either case the foreign capital invested exceeds USD 100,000 or its equivalent in the national currencies of the contracting states at the moment of the actual distribution of the dividends.
45. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 20% of the capital of the company paying the dividends and the foreign capital invested exceeds CHF (Swiss francs) 200,000 or its equivalent in any other currency at the moment when the dividends become due.
46. N/A.
47. N/A.
48. Cinematography films, programmes and recordings for radio or television broadcasting.
49. Any copyright of literary, artistic, or scientific work.
50. Any patent, trademark, design or model, plan, secret formula or process, any computer software programme, or for information concerning industrial, commercial, or scientific experience.
51. If the beneficial owner of the dividends directly holds at least 25% of the capital of the company paying the dividends.
52. If a resident of the other contracting state has invested in its joint-stock capital (registered fund) at least USD 50,000 or its equivalent in the national currencies of the contracting states.
53. If the beneficial owner of the dividends is a company that owns at least 10% of the voting stock (or, in the case of Russia, if there is no voting stock, at least 10% of the statutory capital) of the company paying the dividends.
54. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 10% of the capital of the company paying the dividends and has invested in this company not less than the equivalent of USD 100,000.
55. In the case of banks.
56. In the case of fees for technical assistance.
57. If the residents of the other contracting state have directly invested in the equity share capital of that company not less than USD 10 million.
58. If the beneficial owner of the dividend income owns more than 25% of a capital of a company paying dividends and it contributed more than USD 75,000.
59. 5% is applicable to interbank loans only

Appendix F

Economic organisations

International

Trade

- United Nations Conference on Trade and Development
- World Trade Organisation

Financial

- International Bank for Reconstruction and Development (World Bank Group)
- International Development Association (World Bank Group)
- Multilateral Investment Guarantee Agency
- International Monetary Fund
- International Finance Corporation
- Bank for International Settlements
- Paris Club

Other

- World Intellectual Property Organisation
- World Federation of Trade Unions
- World Customs Organisation
- International Organisation for Standardisation
- International Trade Union Confederation

Regional

Trade

- Organisation of the Black Sea Economic Cooperation
- Asia-Pacific Economic Cooperation Forum
- Customs Union (Belarus, Kazakhstan, Russia)

Financial

- European Bank for Reconstruction and Development

Other

- General Confederation of Trade Unions

NATO

On 27 May 1997, NATO and Russia signed the NATO-Russia Founding Act, which provides the basis for a long-lasting and robust partnership between the alliance and Russia.

The creation of the NATO-Russia Council (NRC), unveiled at the 2002 NATO summit in Rome, provided mechanisms for consultation, joint decisions and joint action on a wide range of issues.

EU

The bilateral basis for EU relations with Russia is the Partnership and Cooperation Agreement (PCA), which came into force on 1 December 1997 for an initial duration of ten years. The PCA established an institutional framework for regular consultations between the European Union and Russia. At a St Petersburg summit in May 2003, the EU and Russia reinforced their cooperation by creating four “common spaces” under the Partnership and Cooperation Agreement: a common economic space; a common space of freedom, security and justice; a space of cooperation in the field of external security; and a space of research and education, including cultural aspects. The PCA was automatically extended at the end of 2007. Negotiations on a New EU-Russia Agreement were launched the next year and are still under way³³.

³³ http://eeas.europa.eu/russia/index_en.htm

Appendix G

Useful sources of information

Government resources

www.kremlin.ru – Official presidential site

www.gov.ru – Official governmental portal (Russian)

www.duma.ru – Official site of the parliamentary lower house (Russian)

www.council.gov.ru/eng/index.html – Official site of the parliamentary upper house

www.cbr.ru – Central Bank of Russia

www.economy.gov.ru – Ministry for Economic Development of the Russian Federation

Associations and business groups

www.amcham.ru – The American Chamber of Commerce in Russia

www.rbcc.com – The Russo-British Chamber of Commerce

www.aebus.ru – The Association of European Businesses

www.rssp.ru – The Russian Union of Industrialists and Entrepreneurs

www.tpprf.ru – The Russian Chamber of Commerce and Industry

www.invest2russia.com; www.b2russia.ru – project aimed to become means of investment exchange between Russia and global investors

Other

www.waytorussia.net – Independent guide to Russia

http://news.bbc.co.uk/2/hi/europe/country_profiles/1102275.stm – BBC country profile

Contacts



David Gray

Managing Partner

dave.gray@ru.pwc.com



Ekaterina Lazorina

Partner, Tax and Legal Services

Practice leader

ekaterina.lazorina@ru.pwc.com



Igor Lotakov

Partner, Assurance Services

Practice leader

igor.lotakov@ru.pwc.com



David Wake

Partner, Assurance, Financial

Services Practice leader

david.wake@ru.pwc.com



Robert Gruman

Partner, Advisory Services

Practice leader

robert.gruman@ru.pwc.com



Alexei Ivanov

Partner, Consumer and Industrial
Products Practice leader

alexei.ivanov@ru.pwc.com



Yury Pukha

Partner, Technology,
Communications, Entertainment
and Media Practice leader

yury.pukha@ru.pwc.com



Richard Pollard

Partner, Oil and Gas

Practice leader

richard.pollard@ru.pwc.com



Ekaterina Shapochka

Government and Public Sector
Services Practice leader

ekaterina.shapochka@ru.pwc.com

List of contributors

Alexei Dingin, Senior Associate

Alla Cotos, Tax Manager

Andrei Kolchin, Tax Partner

Anna Aristova, Marketing Manager

Dmitry Raspopov, Marketing Research Specialist

Elena Puchkova, Senior Marketing Specialist

Evgeniy Gouk, Director

Evgeny Sivoushkov, Director

Gennady Odarich, Director

Igor Koganovsky, Graphic Designer

Jeffery McMillan, Senior Marketing Manager

Karina Khudenko, Tax Partner

Ksenia Gritsepanova, Senior Associate

Larissa Starokozheva, HR Senior Manager

Marina Kharitidi, Senior Tax Manager

Marina Volkova, Tax Director

Maxim Kandyba, Director

Milos Curcin, Marketing Manager

Natalia Komarova, Tax Manager

Nikolay Klinov, Assurance Manager

Valeria Efremova, Tax Manager

Vladimir Konstantinov, Tax Partner

Vladimir Sokolov, Senior Associate

Vyacheslav Sokolov, Partner

Yana Proskurina, Director

Yana Zoloyeva, Partner

www.pwc.ru

PwC Russia (www.pwc.ru) provides industry-focused assurance, tax, legal and advisory services. Over 2,300 professionals working in PwC offices in Moscow, St Petersburg, Ekaterinburg, Kazan, Novosibirsk, Krasnodar, Voronezh, Yuzhno-Sakhalinsk and Vladikavkaz share their thinking, experience and solutions to develop fresh perspectives and practical advice for our clients. The global network of PwC firms brings together more than 180,000 people in 158 countries.

*PwC refers jointly to ZAO PricewaterhouseCoopers Audit and PricewaterhouseCoopers Russia B.V. or, as the context requires, other member firms of PricewaterhouseCoopers International Limited, each of which is a separate legal entity.

© 2013 ZAO PricewaterhouseCoopers Audit and PricewaterhouseCoopers Russia B.V. All rights reserved.