



International tax

Russia Highlights 2016

Investment basics:

Currency – Russian Ruble (RUB)

Foreign exchange control – Some exchange control restrictions are placed on Russian residents (including Russian citizens and legal entities) and on foreign currency transactions, but none apply to the repatriation of profits to a nonresident entity. Residents and nonresidents can hold bank accounts in any currency.

Russian residents (as defined under the Russian currency control legislation) are required to notify the tax authorities upon opening, changing or closing personal accounts with banks located outside of Russia. Residents also must notify the tax authorities about the movement of funds in their foreign bank accounts (e.g. deposits).

Accounting principles/financial statements – Russian accounting standards apply and financial statements generally must be prepared annually.

Companies with securities traded on a stock exchange, banks and insurance companies are required to prepare consolidated financial statements under IFRS. This requirement is in addition to stand-alone statements prepared under Russian accounting standards. Other entities that have issued securities by way of public offerings, or by means of private placements to a wide group of shareholders, also are required to prepare consolidated financial statements under IFRS. Annual consolidated IFRS financial statements must be audited, presented to the shareholders and filed with the central bank.

Principal business entities – These are the public and nonpublic joint stock company, limited liability company, partnership, sole proprietorship and branch of a foreign entity.

Corporate taxation:

Residence – An entity is a Russian resident if it is incorporated in Russia, if its actual place of management is in Russia or if it is deemed to be a Russian resident under a tax treaty.

Basis – Russian tax resident entities are taxed on worldwide income; foreign entities are taxed on income from commercial activities undertaken in Russia and on passive income from Russian sources.

Taxable income – Profits tax is imposed on a company's profits, which consist of business/trading income, capital gains and passive income. Normal business expenses may be deducted in calculating profits, provided they are economically justified, incurred in the generation of income and substantiated by adequate documentation.

Taxation of dividends – Dividends received by a Russian entity from Russian and foreign entities generally are subject to tax at a rate of 13% (but see under "Participation exemption," below.)

Capital gains – Capital gains are taxed as ordinary income at the normal corporate rate (but see under "Participation exemption," below.)

Losses – Losses may be carried forward for 10 years (except for losses derived from activities subject to a 0% profits tax rate). The carryback of losses is not permitted.

Rate – 20%

Surtax – No

Alternative minimum tax – No

Foreign tax credit – Foreign tax paid may be credited against Russian tax on the same profits, but the credit is limited to the amount of Russian tax payable on the foreign income.

Participation exemption – Dividends received from other companies will be exempt from tax if the following requirements are met: the Russian company holds at least 50% of the payer company for at least 365 days in a calendar year. Where the dividends are paid by a foreign subsidiary, it must not be a resident in a "black list" jurisdiction.

A participation exemption also applies to capital gains realized on the sale of unlisted shares and participations in Russian companies, and listed shares in high-technology Russian companies acquired after 1 January 2011 and held for more than five years.

Holding company regime – No

Incentives – Various types of tax incentives are available in Russia. For example, a reduction in the profits tax rate (to 0%, in certain cases), along with other benefits, is available for investment projects in many regions. Certain tax preferences (e.g. a reduction of the federal profits tax rate) are granted to residents of territories of advanced social and economic growth. Companies that participate in the Skolkovo Innovation Center may benefit from a 10-year tax holiday. Technology and software companies may benefit from reduced social security rates. A 0% profits tax rate applies to certain educational and medical services. A 150% deduction for profits tax purposes is available to all companies with qualifying R&D expenditure.

Withholding tax:

Dividends – Dividends paid to a foreign entity or to a nonresident individual are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.

Interest – Interest paid to a nonresident is subject to a 20% withholding tax, unless the rate is reduced under a tax treaty. In

certain cases, a Russian company will not be required to withhold tax on Russian-source income of foreign legal entities relating to Eurobond-type structures.

Royalties – Royalties paid to a nonresident are subject to a 20% withholding tax, unless the rate is reduced under a tax treaty.

Technical service fees – No

Branch remittance tax – No

Other – Other Russia-source payments made to a foreign company may be subject to withholding tax at various rates.

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – See under “Other,” below.

Social security – The employer is required to make pay-related contributions to pension, social and medical insurance funds. The rates of the social security contributions for 2016 are as follows: for pension contributions, the rate is 22% of an employee's remuneration up to RUB 796,000, plus 10% of any excess over this cap; for social insurance contributions, the rate is 2.9% of an employee's remuneration up to RUB 718,000 (the rate is 1.8% of an employee's remuneration in the case of foreign nationals staying temporarily in Russia); and for medical insurance, the rate is 5.1% of the full amount of remuneration.

Mandatory accident insurance contributions are paid separately from the above insurance contributions to the Russian Social Insurance Fund, at rates ranging from 0.2% to 8.5% of the full amount of an individual's employment income, depending on the degree of inherent risk in the employee's occupation.

Income earned by foreign employees hired under the highly-qualified specialist regime is exempt from social security contributions (only accident insurance contributions are due).

Most foreign nationals, including citizens of the Eurasian Economic Union are subject to the same contributions as Russian nationals.

Employees are not required to pay social security contributions in Russia.

Stamp duty – Stamp duty may be levied on certain transactions and documents, but it usually is nominal.

Transfer tax – No

Other – Property tax is a regional tax imposed under local legislation. The maximum rate is up to 2.2% where the tax base is calculated as the depreciated book value, and up to 1.5% where the tax base is calculated as the cadastral value. The tax base includes immovable fixed assets and certain movable fixed assets owned by the taxpayer, excluding land (which is subject to land tax) and movable property booked as fixed assets from 2013. The tax base generally is calculated based on the depreciated book value of the assets as of the balance sheet date. For certain types of administrative, business and trading premises (e.g. real estate owned by foreign companies and not allocated to a permanent establishment in Russia and dwelling houses and premises that are not booked as fixed assets for accounting purposes), the tax base is estimated as the cadastral value of the real estate.

Land tax is a municipal tax, and its application is governed by local regulations, as well as by the tax code. The local authorities set the

land tax rate. Under the tax code, these rates may not exceed 0.3% of the cadastral value of land that is used for agricultural purposes and dwellings and 1.5% of the cadastral value of other land.

The tax base is the cadastral value of the land as determined on 1 January of the reporting year.

Anti-avoidance rules:

Transfer pricing – Comprehensive transfer pricing provisions, which are substantially in line with OECD principles, apply. The rules include detailed documentation requirements and allow for the possibility of obtaining an advance pricing agreement.

Thin capitalization – The thin capitalization rules restrict the deductibility of interest on loans to related legal entities and apply where the lender is:

- A foreign company that owns, directly or indirectly, more than 20% of the charter capital of a Russian company;
- A Russian company that is an affiliate of such a foreign company; or
- Any company to which such Russian-affiliated or foreign company undertakes to act as a guarantor, or to secure in any other way the discharge of the loan by the Russian borrower.

The maximum debt-to-equity ratio is 3:1 for related legal entities in general, and 12.5:1 for banks and leasing companies. Excess interest is recharacterized as a dividend distribution, is nondeductible by the borrower for Russian profits tax purposes and is subject to dividend withholding tax.

Controlled foreign companies – A Russian (corporation or individual) is taxed on the undistributed profits of a controlled foreign corporation (CFC) at a rate of 20% for corporations or 13% for individuals. The CFC provisions are applicable where an entity or an individual that is considered a Russian tax resident has an interest of more than 25% (10%, if more than 50% is owned, directly or indirectly, by Russian tax residents) in a nonresident entity.

A threshold exemption for inclusion of a CFC's undistributed profit in the tax base of a Russian entity or individual is set at RUB 30 million for 2016.

Where the CFC rules apply, the relevant profits of the CFC are computed based on its stand-alone financial statements, provided a tax treaty has been concluded between Russia and the CFC's country of residence and the CFC's financial statements are subject to a mandatory audit in accordance with legislation of the country in which the CFC is resident. Otherwise, the CFC's profits are computed in accordance with the general Russian tax rules.

Disclosure requirements – Certain information must be disclosed to the tax agent on persons exercising rights to certain securities issued by Russian entities and accounted for in the depository account of a foreign nominee holder (including certain types of shares and bonds), foreign authorized holder or depository program. This information may be made available to the tax authorities in some cases. Where the information is not disclosed, a 30% withholding tax may be applied to the income derived from such securities (except dividends).

Russian tax residents are required to notify the Russian tax authorities of the following:

- A direct and/or an indirect participation in a foreign company if the participation exceeds 10%;

- The establishment of a foreign structure that is not a legal entity, as well as the control over such structures or actual rights to the income received by such structures; and
- An interest in a CFC in which Russian tax residents exercise control. Foreign entities owning immovable property in Russia that is subject to property tax are required to disclose information regarding their direct and indirect shareholders to the Russian tax authorities.

Compliance for corporations:

Tax year – Calendar year

Consolidated returns – Russian companies forming a group with 90% (or more) direct or indirect ownership may file a consolidated tax return for the preceding calendar year if tax payments totalled exceeded RUB 10 billion and revenue and assets exceeded RUB 100 billion and RUB 300 billion, respectively, calculated according to Russian accounting standards.

Filing requirements – The annual profits tax return must be filed by 28 March following the close of the previous tax year.

Penalties – Penalties generally are 20% of the relevant tax (or 40% if the default is intentional), plus late payment interest and fixed penalties. Criminal sanctions also may apply.

Rulings – Rulings generally are not granted, but an advance pricing agreement may be obtained under the transfer pricing rules.

Personal taxation:

Basis – Russian residents are taxed on their worldwide income. Nonresidents are taxed only on Russian-source income.

Residence – An individual is resident if he/she spends 183 days or more in Russia during a calendar year. Presence of 183 days or more in Russia in a calendar year is taken into account for final tax status purposes.

Filing status – Each individual must file a tax return; joint filing or assessment for spouses is not permitted.

Taxable income – Taxable income consists of any receipt (in cash or in kind) by an individual, or that is subject to an individual's discretionary disposal, subject to certain exceptions. Profits earned from self-employment activities generally are taxed in the same way as profits derived by companies.

Capital gains – Income derived from the sale of shares in the capital of a Russian company, unlisted stock in a Russian company or listed stock in a high-technology Russian company where the shares are acquired after 1 January 2011 and held for more than five years, is exempt. Gains from the sale of other types of property, except for immovable property, by Russian residents is exempt after a three-year holding period. A five-year holding period applies to immovable property that is acquired as from 1 January 2016 (see "Deductions and allowances" below).

Special rules apply with respect to income derived from transactions with securities issued by Russian entities and delivered by depositaries to foreign entities acting on behalf of an individual.

Deductions and allowances – Subject to certain restrictions, resident taxpayers may be able to claim tax deductions related to property and investments (in securities and in personal investment accounts), charitable contributions, voluntary pensions, life insurance

and medical and education expenses. A standard deduction applies to very low income individuals.

A deduction of RUB 2 million is granted on the acquisition of real estate, as well as for mortgage interest (up to RUB 3 million). Taxable income from the sale of property (except for immovable property) that was owned for less than three years may be decreased by expenses incurred, or by a minimum deduction of RUB 1 million (for immovable property) and RUB 250,000 (for other property, except securities).

The minimum ownership period required for an exemption of income for immovable property increased from three years to five years for immovable property acquired as from 1 January 2016.

The minimum deduction applicable to the sale of nonresidential property decreased from RUB 1million to RUB 250,000 as from 1 January 2016.

Rates – A flat rate of 13% applies to Russian residents on most types of income, and a 30% rate applies to Russian-source income of nonresidents, unless the rate is reduced under a tax treaty.

Dividends are taxed at a rate of 13% for residents and 15% for nonresidents, unless the rate is reduced under a tax treaty.

A 30% withholding tax may apply to certain income from securities if the relevant information is not disclosed to the tax agent (see "Disclosure requirements" under "Anti-avoidance rules," above).

The employment income of highly qualified foreign professionals is taxable at a rate of 13% (even during periods of nonresidence for tax purposes), rather than the 30% rate that otherwise would apply.

Deemed income received by Russian residents from beneficial loans (i.e. where the interest rate on loans made in foreign currency is lower than 9%) is taxed at a 35% rate.

Other taxes on individuals:

Capital duty – No

Stamp duty – Stamp duty is levied, but it is usually nominal.

Capital acquisitions tax – No

Real property tax – Tax is imposed at rates ranging from 0.1% to 2% of the cadastral value annually or the total inventory value, adjusted by a "deflator" coefficient.

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Only a self-employed individual must contribute to social security since contributions are borne by the employer.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Tax on employment income is withheld by the employer and remitted to the tax authorities. In certain cases, individuals should report their income by filing a tax return no later than 30 April following the year of assessment, with any tax outstanding paid by 15 July.

Foreign nationals leaving Russia must submit an exit tax return no later than one month before departure and pay any tax due within 15 days of the filing date.

Penalties – Penalties apply for noncompliance. No extensions are available.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods, the provision of services deemed to be supplied in the Russian territory, the transfer of property rights and the import of goods.

Rates – The standard VAT rate is 18%; reduced rates of 10% and 0% may apply in certain circumstances.

Registration – A foreign entity cannot register for VAT purposes only; the general tax registration is applicable for all taxes.

Filing and payment – The general VAT return is filed on a quarterly basis. Payments are made in three equal monthly installments and

due no later than the 25th calendar day of each of the three consecutive months following the reporting quarter.

Source of tax law: Tax Code of the Russian Federation

Tax treaties: Russia has concluded 80 income tax treaties

Tax authorities: Federal Tax Authority

Deloitte contact

Elena Solovyova

E-mail: esolovyova@deloitte.ru

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