

Doing business and investing in the Russian Federation

2015



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You'll never be alone



In the early stages of World War I, Henry Ford launched his chartered Peace Ship, which sailed to Europe with several prominent pacifists on board. He wanted to appeal to heads of state to get the troops out of the trenches by Christmas. Three weeks later, Ford was back in the United States. "I didn't get much peace", he said, "but I learned that Russia is going to be a great market for tractors".

Isn't a shrewd business approach one that should be followed even during turbulent times?

Of course, sectoral and other sanctions have had their effect on Russia. According to the 18th edition of PwC's Annual Global CEO Survey presented in January 2015, few Russian top managers (16%) are very confident about their companies' prospects for revenue growth over the next 12 months. Furthermore, 63% of Russian CEOs agree or strongly agree that the number of threats facing their businesses has increased.

Of course, Russia is not corruption-free, and bureaucracy and administrative barriers have damaged the country's reputation.

However, significant progress has been made within the last decade to eradicate these obvious obstacles to doing business.

And I have no doubt that Russia today remains a place where one can always find, if not "a great market for tractors", then a market for other products or services. Everybody who is determined not to lose a major business opportunity must have a noticeable presence here.

We have been operating in Russia for more than 25 years and now have over 2,700 clients. In cooperation with our global network of firms, PwC Russia has participated in an impressive number of investment projects, which have attracted almost USD 25 billion into the Russian economy.

And we don't have any plans to curtail our activities. In 2015, our new office in Ufa becomes our 11th here. In Ufa, as well as in Moscow, St Petersburg, Ekaterinburg, Kazan, Novosibirsk, Rostov-on-Don, Krasnodar, Voronezh, Yuzhno-Sakhalinsk and Vladikavkaz – in fact, everywhere in this huge country – you can be sure that PwC Russia's more than 2,500 employees are always there to help you do business.

And, even more importantly, our job is to help you do it even more efficiently.

Igor Lotakov
Managing Partner, PwC Russia

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Maxim Matsiborko

Partner, Regional Development Leader, PwC Russia

Russia's strength and diversity are concentrated in its regions, which boast some of the Earth's richest reserves of natural resources, highly developed infrastructure, and unique human capital resources. Each region has its own specific characteristics, its own special "edge". This opens up an enormous potential for new business projects. Plus, each region has established its own strong, resilient business community, which has demonstrated an eagerness to innovate and build equal partnerships. We are seeing how a number of large-scale projects are becoming a reality, how new markets and technologies are being discovered, and how new heroes are being born.

Office locations in Russia

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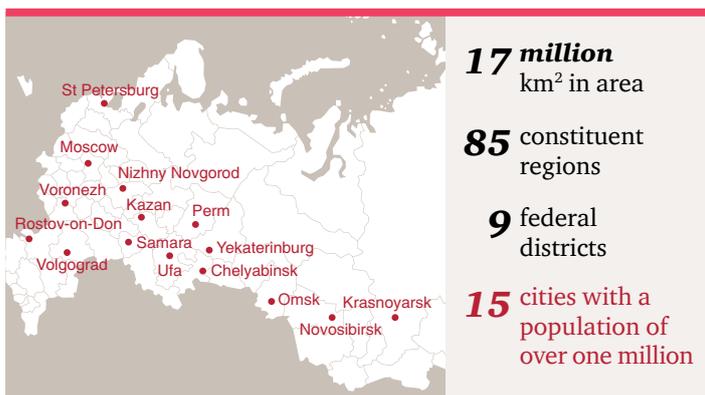


Russia: country profile

Introduction

Geography

- At 17 million km² in area, Russia is the largest country in the world.
- The Russian Federation is composed of 85 constituent regions, which are grouped into nine 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, Ekaterinburg, Nizhny Novgorod, Samara, Kazan, Omsk, Chelyabinsk, Rostov-on-Don, Ufa, Volgograd, Perm, Krasnoyarsk and Voronezh.



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 can appoint high court judges as well.

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.

Richard Pollard

Partner, CEE Assurance Leader,
PwC Central and Eastern Europe

I have found Russia to be a vibrant, exciting place to live; one that's full of great opportunities. For those looking to do business here, I would strongly advise making contacts among the local business community to build up a network that can help you to navigate through the system. A client of mine recently moved into a new role and I was able to introduce him to others in the oil and gas sector. This has proved invaluable because, trust me, Siberia can be every bit as daunting as it sounds!



People

Population

- Preliminary estimates put Russia as the ninth most populous country with 146.3 million people as of 1 January 2015.¹ The population has been rising slowly (0.2 – 0.4% per annum) since 2009.
- The population was 46% male and 54% female in 2014.¹
- The Digest of Education Statistics in the Russian Federation states that, as of 2014, 59.3% of the population were of working age, while 23.5% were above it and 17.2% were below it.²

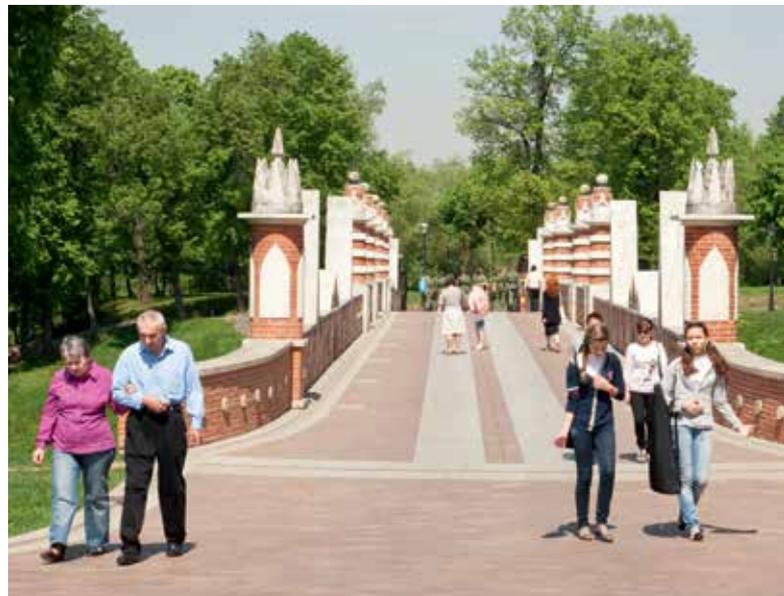
Language

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

Education

- According to the Federal State Statistics Service (Rosstat), in 2014/15 there were 950 institutions of higher education where 5.2 million students are currently studying.¹
- 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 a process of reform.

Russia is ranked 26th out of 124 countries in the World Economic Forum's new Human Capital Report for 2015, which measures countries' ability to nurture talent through education, skills development and deployment at all stages of the human life cycle. Regarding primary education attainment rate in the 15-24, 25-54, 55-64 and 65-and-up age groups, Russia is ranked 1st and placed in the top 16 for secondary and tertiary education attainment rates in those groups.³





Alexander Sinyavsky

Partner, Markets Leader, PwC Russia

The Russian economy is going through a difficult period. While most commentators have an uncertain view of its future prospects, and business is being very cautious, I do see some solidly positive aspects of the current situation. One is that Russia's economy is getting rid of inefficiencies at all levels, including in government spending. In addition, there is an enormous push for localisation of production, which will help diversify the economy. Russia has talent. And, the country's history has been full of challenging situations. So, I'm confident that Russia will come through this one even stronger.

Economy

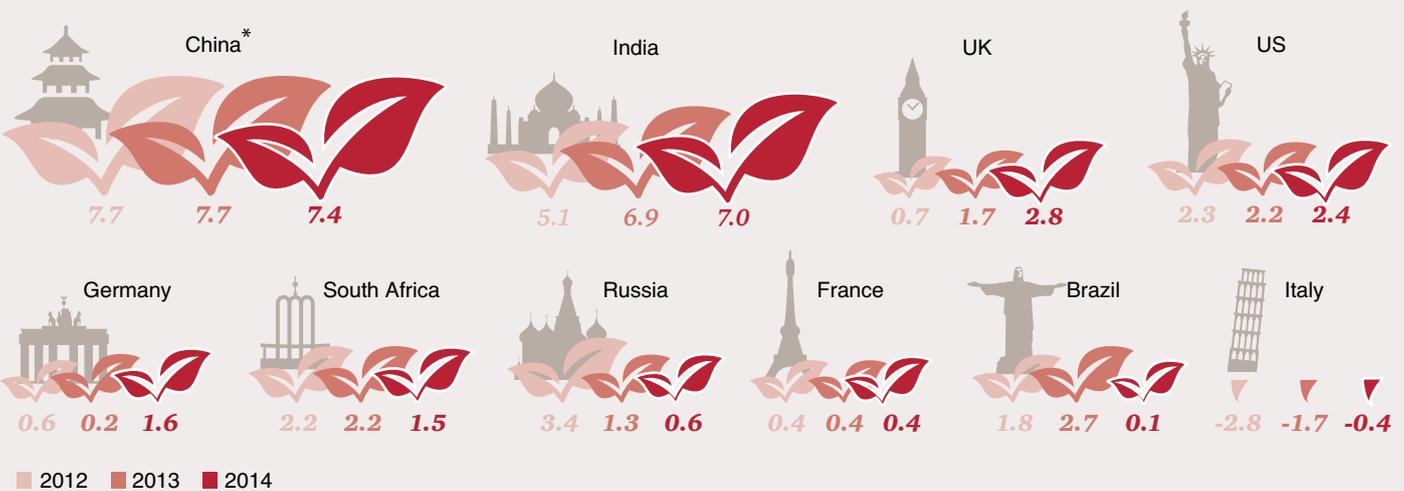
Economic overview

Russian GDP grew 0.6% in 2014 according to the Ministry of Economic Development. Import substitution was one of the main factors of economic growth. Household consumption growth slowed (to 1.9% in 2014 from 5% in 2013) while investment deteriorated (down 2.5% in 2014 versus 1.4% growth in 2013). Output in the manufacturing segment increased, while imports contracted. As a result, net exports soared and the economy demonstrated positive dynamics.⁴

Putting this in to context of emerging markets:

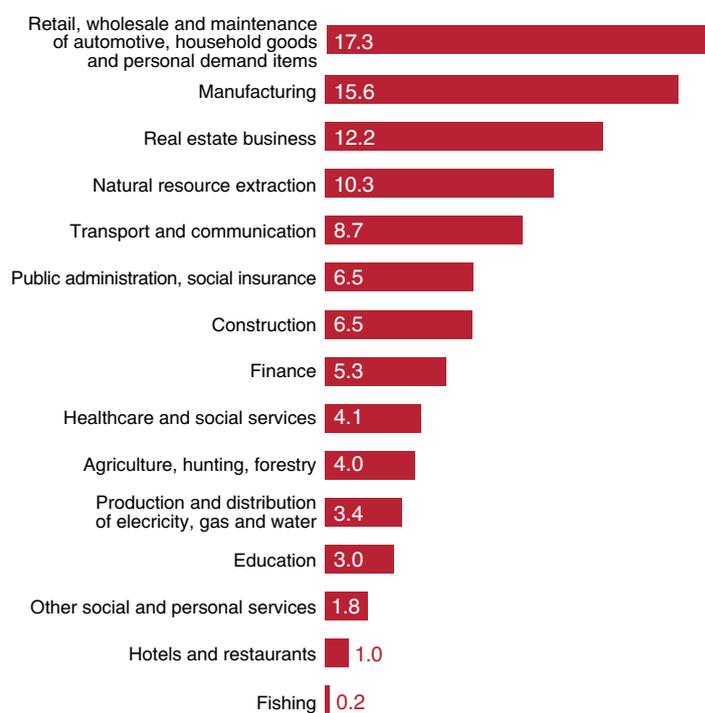
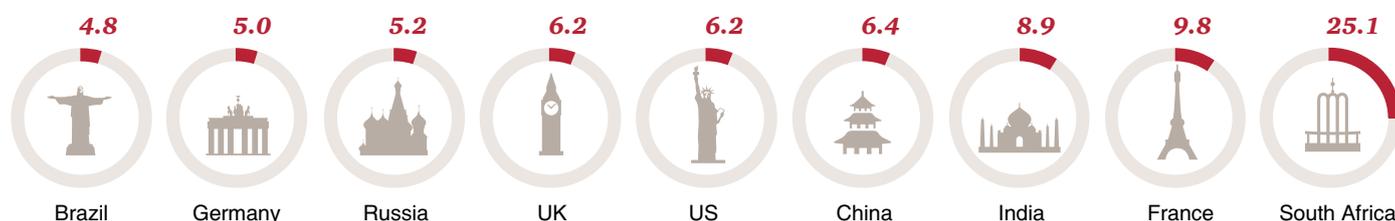
- The Economist Intelligent Unit (EIU) reports that Brazilian real GDP grew 0.1% in 2014 in comparison to India (7%), China (7.4%) and South Africa (1.5%).⁵
- EIU forecasts decreases of 3.9% in Russian GDP and 1% in Brazilian GDP in 2015, while GDP in India is expected to increase about 7.3%, in China by 7%, and in South Africa by 2.2%.⁵

Figure 2 Growth of real GDP, %



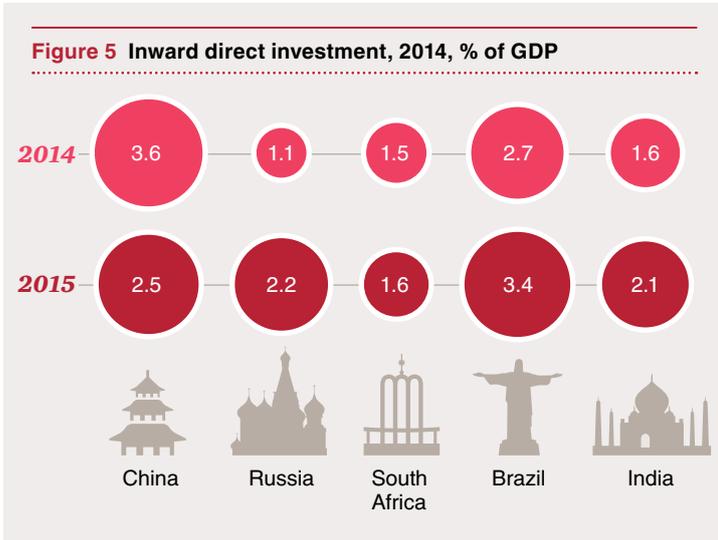
* Growth of GDP

- The retail turnover grew 2.5% in 2014, while real disposable incomes decreased 1%.⁶
- Share of retail, wholesale and maintenance of automotive, household goods and personal demand items in gross value added (GVA) structure by sectors is the largest at 17.3% (Figure 3).¹
- Russia's economically active population in 2014 was 71.8 million people.⁶
- EIU states that the unemployment rate is 5.2% in 2014 (Figure 4).⁵
- The average exchange rate in 2014 reached 1 USD/RUB 37.97 and 1 EUR/RUB 50.46 compared to 1 USD/RUB 31.82 and 1 EUR/RUB 42.27 in 2013.⁷
- The inflation rate was 11.4%, above the 6.5% level for 2013.⁶
- The country's international reserves are among the highest in the world and came to USD 385,46 billion as of 1 January 2015.⁷
- The Ministry of Finance reports the 2014 budget deficit was the same as in 2013 at 0.5% of GDP.⁸

Figure 3 Gross value added (GVA) breakdown by sector, 2014, %**Figure 4 Unemployment rate, 2014, %**

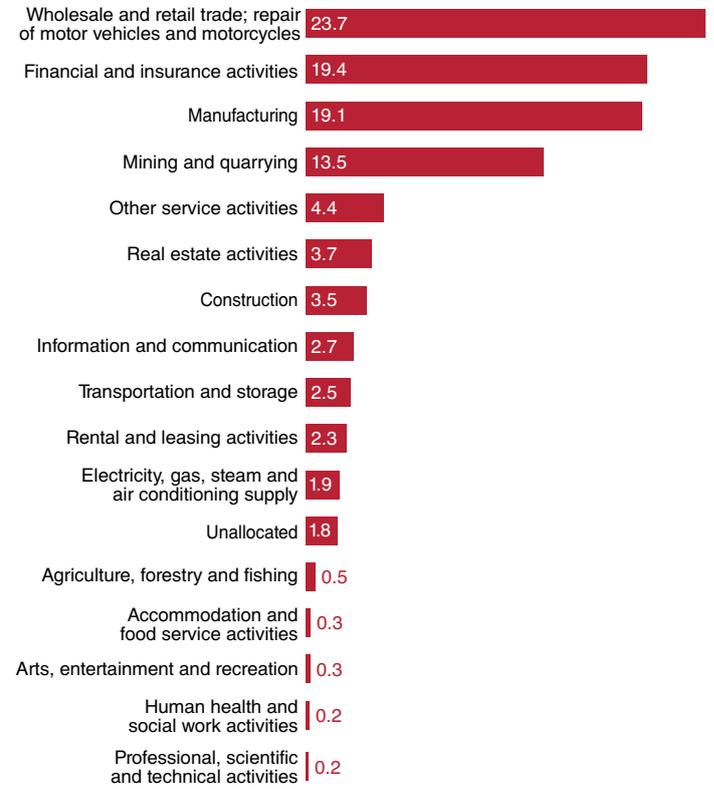
Foreign investments in Russia

- The EIU states that inward direct investments in Russia were about 1.1% of GDP in 2014 and forecasts 2.2% in 2015.⁵



- The largest share of foreign direct investment inflows to Russia for Q1-Q3 2014 accrue to wholesale and retail trade, repair of motor vehicles and motorcycles – about 24%.⁷

Figure 6 Foreign direct investment inflows to Russia by sector for Q1-Q3 2014, % of total



Sources:

- 1 Federal State Statistics Service
- 2 Digest of Education Statistics in the Russian Federation 2014, National Research University – Higher School of Economics
- 3 The Human Capital Report 2015, World Economic Forum

- 4 Russia Economic Monthly, Sberbank CIB
- 5 Economist Intelligence Unit, April 2015
- 6 Ministry of Economic Development of the Russian Federation
- 7 Central Bank of the Russian Federation
- 8 Ministry of Finance of the Russian Federation





Financial system

Currency

The national currency is the Russian rouble.

Since foreign currency transactions between Russian residents are generally prohibited (subject to certain exceptions) under Russian currency law, any settlements between Russian residents are generally performed only in Russian roubles.

With respect to currency transactions between residents and non-residents, such transactions may be carried out without any restrictions and in any currency. However, when performing currency transactions, residents should comply with certain requirements under Russian currency control legislation.

For instance, Russia's currency control law establishes certain rules with respect to foreign bank account use, repatriation and reporting requirements for residents when performing settlements with non-residents under foreign trade agreements.

The official exchange rates of the Russian rouble (RUB) to the US dollar (USD) and the euro (EUR) currency basket has recently been subject to significant fluctuations. The exchange rate can be tracked at the CBR's official website (http://www.cbr.ru/currency_base/daily.aspx). Establishment of the ratio of currency exchange rates is within the exclusive competence of the CBR (http://www.cbr.ru/currency_base/286-p.pdf). Currency fluctuations are not regulated by Russian law and are driven exclusively by both the political and economic situation.

Central Bank of the Russian Federation

The Central Bank of the Russian Federation (CBR) is a competent state body with the exclusive right to issue currency and obligation to protect the rouble and ensure its stability. The CBR is authorised to regulate and supervise the following financial sectors (the list is not exhaustive):

- banking;
- insurance;
- securities market.



Natalia Mileschkina

Partner, Leader of Financial Services Practice, PwC Russia

Should one invest in Russia's banking sector? Is this even feasible in the current climate, or would it be wiser to take a "wait and see" approach?

These are the questions that potential investors are inevitably asking these days. But I'm convinced that the new economic reality creates new opportunities for business development.

When a market is complicated, and many are cautious about its prospects, that's precisely the time for making well-conceived, well-thought-out investments, building relationships with new partners and revisiting old alliances.

The CBR's main functions are:⁹

- protecting the rouble and ensuring its stability;
- setting monetary policy;
- issuing money and overseeing currency turnover;
- setting official exchange rates;
- acting as the lender of last resort and organising refinancing for credit institutions;
- setting settlement rules and regulations for conducting banking operations;
- regulation of the national payment system;
- managing state budget accounts and the CBR's international reserves;
- supervision and registering financial organisations (non-state pension funds, credit institutions, insurance companies, etc.);
- establishing accounting and reporting rules for financial organisations;
- securities market regulation (including but not limited to the registration of equity securities and securities' prospectuses);
- currency regulation and control;
- participation in the development of the forecast on Russia's balance of payments;
- analysing Russia's economy as a whole and by region;
- monitoring compliance with the requirements of federal law for combating illegal use of insider information and market manipulation;
- protecting the rights and legitimate interests of shareholders and investors on financial markets, as well as insurers, insured persons and beneficiaries, etc.

Banking sector

According to the CBR, as of 1 January 2015, total assets (liabilities) in the banking sector had increased by 22.6% in relation to GDP of the previous year. Banks' capital in the sector increased by 0.5% in relation to GDP of the previous year, and by 2.1% in relation to assets of the banking sector.

Growth rates of performance of the banking sector with respect to the increase of own funds (capital) amounted to 42.7% during the 12 months preceding 1 January 2015.

Total profit of credit institutions, including losses of the current year, decreased by RUB 191,6 billion compared to the previous year.¹⁰

⁹ <http://www.cbr.ru/today/?Prtid=bankstatus>

¹⁰ http://www.cbr.ru/analytics/bank_system/obs_1502.pdf

Insurance

As of January 2015, there were 393 registered insurance companies and 564 subjects of insurance activities.¹¹

Almost all segments posted double-digit growth for insurance premiums. The fastest growing segment was “obligatory insurance” (excluding auto insurance/ OSAGO), which saw a 9.4% year-on-year increase followed by “life insurance” (55.5%), “business and financial risks” (23.8%), OSAGO (9.1%) and “personal insurance” (14.9%) (excluding life insurance).¹²

Capital markets

Russian companies are generally permitted to issue and offer stock and bonds for public placements.

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 currencies.

The IPO for united MICEX-RTS took place in February 2013.¹³

Anti-money laundering (AML) legislation

A number of measures have been implemented since 2001 to bring anti-money laundering (AML) law in line with international standards, along with organisational and administrative measures for enforcing the law. Russia has been a member of the International Financial Action Task Force (FATF) since 2003. It is also a member of the Eurasian group on combatting money laundering and the financing of terrorism (EAG), established in 2004 to bring together several CIS countries, as well as China and India.



¹¹ <http://www.insur-info.ru/statistics/analytics/?unAction=a06>

¹² http://www.fcsm.ru/ru/contributors/insurance_industry/statistics/index.php?id_4=287

¹³ <http://www.finmarket.ru/z/nws/news.asp?id=3197411>



Importing and exporting

Tips for exporters

- If goods are imported into Russia under a transaction between a foreign company and a Russian company, the Russian party is usually responsible for the customs clearance.
- In order to import goods into Russia and clear them through customs, an importer should make all customs payments due under the chosen customs procedure 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 permission/licenses.
- Russia has several special economic zones (SEZ) offering customs benefits.

Customs policy

Russia's customs policy has recently seen several developments:

- The customs duty on imports of technological equipment has been reduced.
- Simplification of the customs clearance procedure.
- Tighter customs controls have been introduced after the customs clearance of goods (including customs control of goods acquired by final customers on the Russian market). To further develop regional integration in Eurasia, the Belarus-Russia- Kazakhstan Customs Union has been reorganised as the Eurasian Economic Union (EAEU). Armenia joined the EAEU in January 2015 and Kyrgyzstan is expected to join in May 2015. The EAEU Agreement introduces basic principles for the organisation's legislative framework and, in particular, stipulates that country-members continue to further economic integration and unification of legislation.
- A New Customs Code of the EAEU is being developed; As part of Russia's WTO accession in 2012, further steps have been made in reducing trade barriers for goods and services.
- There has been some liberalisation of administrative liability for violations of customs rules.

Vladimir Konstantinov

Partner, PwC Russia

Among all elements of the fiscal system, customs is one of the most affected due to recent international and economic changes. This, in turn, has triggered changes in customs regulations and practices. These challenges are still manageable but they do require understanding of the local environment and specific issues.



Import restrictions

Technical measures

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

Contingent trade-protective measures

Russia may impose anti-dumping duties on certain goods (e.g. light commercial vehicles originating in Germany and Italy) or special (safeguard) duties on certain goods (e.g. tableware and kitchenware made of porcelain).

Recent restrictions

Some food and agricultural products originating from listed states (the USA, EU country-members and some other countries) have been banned for import into Russia.

Some countries (i.e. the USA, EU country-members) have imposed economic restrictions on Russia pertaining to specific financial and production-focused institutions, specific industries and types of goods, as well as specific individuals and legal entities.

Customs duties

Classification of goods

The EAEU tariff classification system, which is currently applied in Russia, is based on the internationally recognised Harmonised Commodity Description and Coding System.

Valuation rules

Customs valuation in Russia is in line with GATT/WTO (General Agreement on Tariffs and Trade/World Trade Organization) principles. The customs value of a good is generally equivalent to the DAF/EAEU border transaction value.

Rates

Import duties are applicable for most goods. The majority of customs duty rates in Russia are ad valorem (i.e., assessed as 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.

Regular customs duty rates vary widely, from 100% but not less than EUR 2 per litre on spirits to zero for a wide range of equipment and machinery, medicines, and certain priority imports. On average, duty rates come between 5% and 15% of the customs value of goods. Regular rates established by the Common Customs Tariff are applicable to imported goods originating in any country unless Russia provides beneficial customs treatment based on free trade agreements or applies the General System of Preferences (GSP). Under the GSP, certain raw materials and handmade goods originating in "developing" and "least developed" countries may be imported at 75% of the regular rates or at zero rates, respectively.

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 several other countries (Serbia, Montenegro). Goods originating in these countries are exempt from customs duty for import to Russia (subject to certain conditions). Furthermore, Armenia, Russia, Belarus and Kazakhstan have formed a single customs territory, and goods moving within and between these countries are generally not subject to customs clearance.

Furthermore, a free trade agreement with Vietnam is expected to be signed in 2015. Additionally, the EAEU has started negotiating free trade agreements with India, Turkey, and Israel.

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 volume, weight or other characteristics).

Import VAT

The import VAT rate for most goods is 18% of their 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 can vary from around EUR 8 to EUR 470 per customs declaration depending on the customs value of the shipment.

Payments

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

Temporary import relief

Goods may be imported under a temporary import customs procedure (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 authorisation of the customs authorities. Upon expiry of the temporary importation period, goods are moved out of Russia or placed under another customs procedure (e.g. released for free circulation).

Temporary importation usually 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 may require a security (e.g. in the form of a deposit, pledge, bank guarantee, etc.) for the 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 another company is possible as long as the proper authorisation from the customs authorities has been obtained.

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 the charter capital formation. The customs authorities may require a security on customs payments upon the importation of the 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.

Courier clearances

Shipments for import into Russia valued at less than EUR 200 (including transportation costs) are not subject to customs taxes and may benefit from streamlined customs clearance that is applicable for so-called "express deliveries". Streamlined customs clearance entails that all low value shipments are released by a courier company en masse, rather being declared separately.

Tolling

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

Under an 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. No export customs duty is charged when 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 free customs regimes 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 open circulation to the rest of Russia, import customs duties and VAT are payable. Duty-free import from an SEZ to the rest of Russia is usually unavailable for SEZ residents who have registered after 1 January 2012. If goods manufactured in a particular SEZ are exported to foreign countries, they are subject to export duties, if applicable. Foreign goods that were imported into an SEZ but not processed may be re-exported without paying export duties.

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 the customs authorities prior to import (incorporation documents, tax registration certificates, etc.).

Documentation

EAEU regulations provide 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 the imported/exported goods, conditions of the transaction, etc.

Customs value declarations

The customs value of imported goods is declared in a special 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 EAEU regulations provide a general list of documents required to confirm declared customs value, the list is, nonetheless, not exhaustive.

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

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.

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 an export customs duty.





Business entities

Legal framework

Civil Code

Chapter 1 of the Russian Civil Code covers certain business organisations and their organisational foundations. It sets out the requirements for founding documents, as well as the name, location, governance and state registration of legal entities. It also defines branches and representative offices while also governing reorganisation and liquidation. Effective 1 September 2014, major amendments were introduced into the Civil Code with respect to provisions regulating the establishment and activity of Russian legal entities. These amendments cover, inter alia, the legal status of the entities, rights and obligations of their shareholders, requirements with respect to their management structure, and other matters.

Joint-stock and limited liability companies are governed by separate federal laws.¹⁴

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. Furthermore, they are easier to establish and 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.

Forms of business entities

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

- Full partnerships;
- Limited partnerships (*kommandit* partnerships);
- Economic partnerships;
- Limited liability companies;
- Production cooperatives;
- Joint-stock companies (public and non-public); and
- Unitary enterprises (state-owned legal entities not open to foreign investors).

¹⁴ 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"

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

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 risk of losses resulting from 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 subject to registration. In addition, it describes public and non-public joint-stock companies. The former are entitled to have their stock publicly traded, but they must comply with rather strict legislative requirements concerning the structure of their governing bodies, relationships between shareholders, obligatory reporting, etc. The latter companies, in turn, cannot arrange for public trade of their stock, but may enjoy more flexible regulation with respect to their corporate structure and operations.

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

A joint-stock company's share capital is composed of the nominal amount of shares acquired by its shareholders. The minimum "charter" (share) capital for public and non-public joint-stock companies is 1,000 and 100 times the minimum monthly wage,¹⁵ respectively.

A joint-stock company's higher management body is the general meeting of shareholders, which must convene at least once a year. A public joint-stock company must have a board of directors consisting of at least five members. The company's executive body may be collegiate (board, directorate) and/or "one-person" (director, general director). It is also possible to have several "one-person" executive bodies in a joint-stock company that may represent the company jointly or separately (with a full or limited scope of authority). A joint-stock company's executive body carries out the day-to-day management of operations 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 via the procedure or on the grounds established by the Civil Code.

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



¹⁵ The term "minimum monthly wage" is used by the Government and means a ratio to calculate different payments. It does not reflect the real minimum wage. As of 1 January 2001, the minimum monthly wage was RUB 100.

Limited liability companies

Under the Civil Code, a limited liability company may be 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 their share in the charter capital. The participants may conclude a participants' agreement to regulate how their rights are exercised. The number of participants in a limited liability company cannot exceed 50.

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

A limited liability company's management structure is similar to that of a joint-stock company. Limited liability companies are considered to be non-public and, thus, may enjoy more flexible options in regards to organising their management structure, relations between shareholders, and other aspects of their activity.

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 type of 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 their 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.

Branches

A foreign legal entity's branch or representative office must be registered with the Russian authorities. However, in contrast to Russian legal entities, registering a branch or representative office of a foreign company involves several federal and local authorities. As of 1 January 2015, major amendments were introduced to Russian laws regulating the establishment of branches and representative offices in Russia. According to the current rules, the following steps should be taken in order to establish a branch / representative office:

Figure 7 These steps should be taken in order to establish a branch / representative office



At the moment, most branches / representative offices should be accredited with the tax authorities except for the branches / representative offices of banks and organisations operating in the aviation industry. These latter entities should be accredited with the CBR or the Ministry of Transportation, respectively. Furthermore, the new rules do not clearly regulate the accreditation of branches / representative offices of foreign media outlets, which, as per previous statutory requirements, should obtain accreditation through the Russian Ministry of Foreign Affairs. Accreditation is mandatory since local banks and the administrative authorities may not recognise a branch / representative office without it.

Branches / representative offices established before 1 January 2015 with accreditation that shall not expire before 1 April 2015 must report information about themselves to the tax authorities before this date, so that this information may be introduced into the new state register. Failure to observe this requirement may result in cancellation of the accreditation of a branch / representative office.

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 that of 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 is currently RUB 120,000 (approx. USD 1,800). In addition, the Chamber of Commerce and Industry may charge a certain insignificant fee for a review of the documents required in order to agree on the number of expatriate employees for accreditation purposes.

Representative offices

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, such operations should only be conducted through a registered branch or a Russian company.

The state duty for the accreditation of a representative office is the same as that for branches.

Proposals for change

As of the current date, the federal laws on joint-stock and limited liability companies are not aligned with the latest amendments to the Russian Civil Code. Therefore, a number of provisions of the respective laws may contradict the corresponding provisions in the Civil Code. New draft versions of the aforementioned laws are currently being reviewed by the Russian State Duma and should be adopted in 2015. Until then, if the provisions of the relevant laws contradict the Civil Code, the latter should apply.





Labour relations and social security

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

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

Labour relations

Labour Code

The Labour Code, which came into force on 1 February 2002, and other special laws govern employer-employee relations. Before 2015, the Labour Code has been amended significantly, both to correct textual ambiguities and introduce several fundamental changes.

In 2013, the Labour Code was supplemented with a special chapter related to employment of remote employees who perform their duties outside of employer's office and deliver their work via the Internet. In addition, the Labour Code was supplemented in 2014 with a chapter on the specific regulation of work performed by foreign nationals or stateless persons.

The Labour Code heavily regulates employer / employee relations. The law provides employees with a 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 conditions and excessive working hours. Furthermore, Russian labour law makes it very difficult for the employer to dismiss an employee on disciplinary grounds.

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 2015, the statutory minimum monthly wage (including that for foreign nationals) was RUB 5,965 per month (approximately USD 96). Individual Russian Federation constituent regions may set their own minimum wages 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 2015, it had been RUB 14,500 per month (approximately USD 234). On 1 April, it increased to RUB 15,000 per month (approximately USD 242).

Employment contracts

A written employment contract with terms of employment must be concluded with every employee in Russian. It may be accompanied with a translation into another language (however, the Russian version shall prevail). The Labour Code establishes mandatory requirements for the content of employment contracts.

In particular, the following conditions must be included in an employment contract:

- place of employment;
- job function;
- employment commencement date;
- salary payment terms and conditions;
- work hours and vacation entitlement; etc.

A job description should define an employee's job duties in the employment contract or in a separate document.

An employee cannot subsequently be required to perform tasks outside the scope of duties fixed in the job description. It is recommended that the job description be provided in a separate document (not as an appendix to the employment contract) as it would be easier to modify.

Employers are required to issue an internal order (special HR document) every time an employee is hired, transferred to a new position, granted a vacation, and disciplined or dismissed, as well as in other situations. Moreover, employers should adopt a certain set of obligatory internal policies as required by the Labour Code.

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 employee categories, the number of working hours must be reduced (for example, employees ages 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.

Specific regulation of employment of foreign nationals and stateless persons

In late 2014, the State Duma supplemented the Labour Code with a chapter on the specific regulation of work performed by foreign nationals or stateless persons.

In particular, the Labour Code is supplemented with the following provisions:

- specific procedure for concluding employment contracts with foreign nationals or stateless persons;
- additional grounds for suspending foreign nationals or stateless persons from work;
- additional grounds for terminating employment contracts with foreign nationals or stateless persons;
- additional grounds for making severance payments to foreign nationals or stateless persons.

Due to the above amendments to the Labour Code, Russian employers who have hired foreign or stateless employees shall make the relevant changes to the employment contracts of such employees.

Concluding employment contracts

An employment contract with the terms of employment must be concluded in written form with every employee and executed at least in two copies within three business days after the day the employee starts work. Both parties should sign each copy. An employee must also confirm that he/she has received the counterpart of the employment contract. Before an employment contract is concluded, the employer must familiarise employees with the relevant internal policies that relate to their labour activity before conclusion of the employment contract.

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.

Amending employment contracts

Employment contracts can only be amended by an 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 job function. 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 with payment of severance allowance equal to two weeks' average salary.

Terminating employment contracts

An employer may terminate employment relations with an 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 due to circumstances not depending on the parties to the employment contract. The list is fairly short, and the employer may not establish additional grounds to terminate an employment contract with the employee except for specific employee categories, such as general director. Otherwise, the dismissal would be deemed unlawful and the employee would have to be reinstated.

An employee may terminate employment relations with an employer on 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 a general director.

The procedure for terminating an employment contract is dependent on the grounds stipulated. Employers must strictly comply with the procedures and documentation requirements in the Labour Code when terminating employment. The Labour Code provides additional protection to specific categories of employees, including minors, pregnant women, employees with children, trade union members, and various other categories.

The severance allowance to be paid to an 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 no less than three average monthly salaries. The Labour Code establishes additional protection for a number of employee categories with respect to dismissals, including trade union members, female employees and employees with children.

Secondment arrangements

Secondments are widespread in foreign jurisdictions and used by numerous Russian and multinational companies in Russia. In 2014, significant amendments to employment legislation with respect to secondment were introduced. These amendments will come into force at the start of 2016.

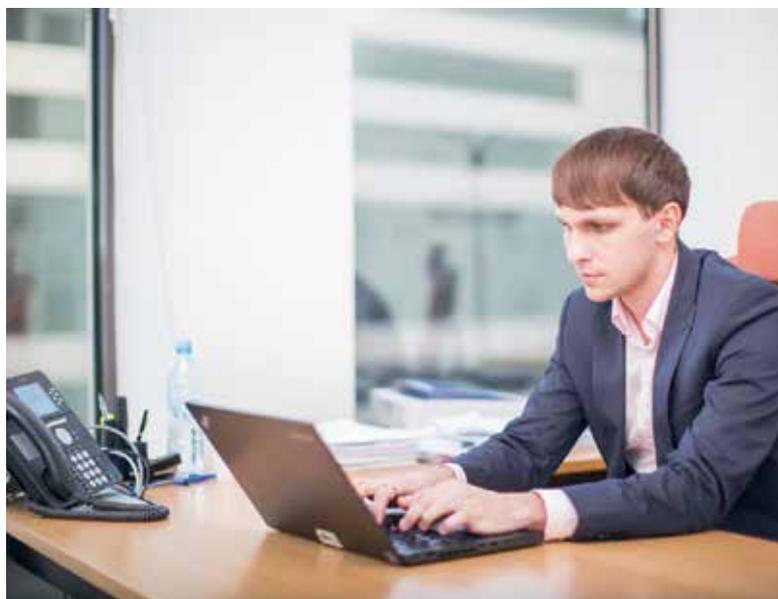
The key novelty of these amendments is the total ban on secondment activities. The exception from this ban states that staff secondment activity, on the condition that certain provisions are fulfilled, can be performed by:

- private employment agencies (“PEA”), and
- other legal entities that conform with the requirements prescribed by law (e.g., affiliation or a shareholder agreement with a legal entity receiving seconded staff).

Russian legislation will also establish the general conditions when a staff secondment will be possible, in particular:

- obtaining the employee's consent;
- concluding a staff secondment agreement between the client (the receiving party) and the provider (the seconding party);
- performance of work by the employee for the receiving party in accordance with the employee's labour function under an employment agreement with the seconding party; etc.

However, since part of the labour law amendments regarding secondment are still being drafted how secondment activities will be regulated in detail in 2016.



Specific types of employment

Russian employment legislation also describes different types of employment whereby an employer may structure relations with employees. According to recent practice, the most useful types for employers are remote work and itinerant employment.

Remote work

Remote work was introduced to the Labour Code in 2013 and includes situations when an employee may work outside of an employer's office. Such working arrangements can be beneficial for an employer since it helps them save on office rent, reduce the employer's list of health and safety obligations, and simplify HR document flow (upon mutual agreement of the parties, data on remote work may not be entered into the labour book). Communications between the parties may be performed through information and telecommunications networks including the Internet. Documents transferred by such means should be certified by a digital signature. Employment contracts with remote employees may also establish additional grounds for employment contract termination, taking into account the various nuances of remote work.

Itinerant employment

Itinerant employment means employment involving regular travel of employees related to their job duties. This type of work is recommended for employees who travel often since it will allow employers to reduce payroll costs and simplify HR document flow.

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 in certain cases should consider the position of a trade union before adopting internal policies or dismissing employees who hold union membership.

New sanctions for violation of employment law and health and safety requirements

As of 1 January 2015, several amendments were introduced to the Code of Administrative Offences of the Russian Federation, which has toughened up employer liability for violations of employment law and health and safety requirements. Furthermore, the changes now differentiate liability for such violations.

Furthermore, these amendments detailed corpus delicti that was indicated in the Code of Administrative Offences in general terms. For example, these amendments introduced separate corpus delicti for improper execution of an employment contract, violation by an employer of the statutory process for special evaluation of labour conditions, permitting an employee to work without prior training and testing, etc.

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 must make all relevant contributions.

Employer contributions

Employers currently make the following contributions on behalf of their employees.

Figure 8 Obligatory Social Insurance Contributions (SIC)

Social insurance contributions are payable on top of employees' remuneration to the following funds (2015 rates and caps)



Pension Fund

22% up to RUB 711,000
+ 10% on the excess



Federal Fund of Obligatory Medical Insurance

No cap. Rate is 5.1% on top of employees' remuneration



Social Insurance Fund

Capped. Cap is RUB 670,000.
The rate is 2.9%

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 staying 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 SIC, which effectively reduces total SIC payable.
- OAIC are not payable if the relevant civil contract does not stipulate accident insurance.
- Payments or other allowances under employment contracts with highly qualified professionals temporarily staying in Russia or employees temporarily staying in Russia who have concluded contracts for a period less than six months in a calendar year are exempt from SIC.

Foreign personnel

Accommodation and living conditions

Accommodation in Moscow is usually up 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. In addition, there are schools available specifically for the children of expatriates.

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 visas and permits are valid.

Employment restrictions

There are no restrictions on how many foreign employees can work in a given Russian 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 (e.g. a foreign individual cannot work in a public service position).

Foreign employees working in Russia may be conventionally split into four categories described below. The regulation of employing foreign employees is based on imposing certain rules with respect to each category of foreign citizen.

(1) **Foreign employees from countries of the Eurasian Economic Union.** These are foreign employees from several CIS countries, namely, from the Republics of Armenia, Belarus and Kazakhstan, respectively, united in an integrated regional economic organisation – the Eurasian Economic Union.

Foreign employees belonging to this category enter Russia on a non-visa basis and need neither a work permit nor patent to work in Russia.

Citizens of the Kyrgyz Republic will also soon be shortly able to work in Russia without work permits subject to the completion of procedures for the Kyrgyz Republic's accession to the Eurasian Economic Union. (Citizens of the Kyrgyz Republic may enter Russia on a non-visa basis.)

(2) **Highly Qualified Specialists (“HQS”).** These are foreign employees entering Russia on a visa basis and/or entering Russia on a non-visa basis (excluding citizens of the Republics of Armenia, Belarus and Kazakhstan, respectively) whose income in Russia makes them eligible for the privileged status of “Highly Qualified Specialist”. HQS status is available to foreign employees earning a salary of at least 167,000 RUB (about USD 2,800) per month (the employer must inform the immigration authorities about payments made to HQS in every quarter).

HQS employees work in Russia on the basis of their personal HQS work permits while their employers do not need to formalise employment permits.

(3) **Regular foreign employees entering Russia on a visa basis.** These are regular (i.e. those without HQS status) foreign employees entering Russia on a visa basis.

Such employees may work in Russia on the basis of personal work permits and their employers must obtain corporate employment permits.

(4) **Regular foreign employees entering Russia on a non-visa basis.** These are regular (i.e. those without HQS status and who are not citizens of the Republics of Armenia, Belarus and Kazakhstan, respectively) foreign employees entering Russia on non-visa basis.

Such foreign employees must obtain patents to be able to work in Russia.

It should be noted that foreign nationals permanently residing in Russia on a permanent residency permit basis or foreign employees engaged, for instance, in the assembly of technical equipment delivered to Russia are exempt from certain immigration law requirements. In practice, the number of such foreign nationals is relatively low and, hence, we will not describe them as a separate category of foreign employee.

Quota requirements

Foreign employees from the countries of the Eurasian Economic Union, HQS and regular foreign employees entering Russia on a non-visa basis are exempt from the quota system and can be hired even if the given year's quota has already been met. Regular foreign employees entering Russia on a visa basis are generally formalised within the quota annually approved by the Russian Government. For 2015, this quota is 275,856 employees. If the annual quota has been filled in a certain year, no foreign employees entering Russia on a non-visa basis may be formalised further.

Companies intending to hire foreigners must submit a request for a quota every year before the respective deadline set in the region where the foreigner will be working. Failure to apply for a quota in a timely fashion may result in significant difficulties in employing foreign nationals.

The Russian government issues a list of professions not exempt from quotas every year. The list usually includes senior management of Russian companies and branches/representative offices, as well as less common professions such as IT security specialists or engineers.

Fiscal registration number

Under Russian law, a fiscal registration number shall be assigned to each foreign employee working in Russia. Assignment of this fiscal registration number shall be confirmed by the respective fiscal registration certificate issued in the name of the foreign employee.

Although there is a statutory procedure for assigning fiscal registration numbers to foreign employees without their involvement, this procedure does not always work in practice and, hence, employers of foreign employees usually arrange for pro-active fiscal registration of their foreign employees.

Access to medical care

All foreign employees (and their accompanying family members, in cases provided under Russian law) must have access to first aid healthcare and special emergency medical aid in Russia, either through an insurance policy or through an agreement for the provision of medical services concluded by an employer with a health care institution.

Such access shall be available within the whole term of the employee's stay in Russia (as well as within the whole term of stay in Russia of his/her family members, where applicable).

Work permit

Work permit requirements shall apply only to HQS and regular foreign employee entering Russia on a visa basis.

Under Russian immigration law, the aforementioned categories of employees have the right to work in Russia only if they hold individual work permits (HQS work on the basis of an HQS work permit). Also, as it is worth noting that, as mentioned above, employers of regular foreign employees entering Russia on a visa basis must obtain employment permits (i.e. have permission to employ foreign personnel).

Employment and work permits are generally issued for one year and specify a particular Russian region. An HQS work permit shall be generally issued for three years and may be valid for several Russian regions. Work permits 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. The process for formalising a work permit (either an HQS work permit or a work permit for a regular employee) can only begin once a company (the employer) has been duly established. Employment during the pending period is prohibited. It generally takes up to three months to obtain a personal work permit for a regular (non-HQS) employee, whereas the statutory term for issuance of the HQS work permit is 14 calendar days.

Accompanying family members should obtain separate work permits/patents if they wish to work in Russia.

Patents

Patents shall be obtained by regular foreign employees entering Russia on a non-visa basis. In accordance with recent amendments to Russian immigration law, patents have replaced work permits for this category of expatriate employees (prior to this, foreign employees entering Russia on a non-visa basis were obliged to obtain work permits in order to work in Russia).

The patent term is up to 12 months with the option for a single renewal also for a period of 12 months. Generally, a foreign citizen shall work within the territory of the Russian region specified in his/her patent. The patent is issued within the statutory term of 10 working days from the date of receipt of the respective application by the authorities.

Foreign employees entering Russia on a non-visa basis with a valid patent can be employed by both legal entities and individuals.

Visa

A foreign employee entering Russia on a visa basis may generally work in Russia only provided that he/she has a valid personal work permit and a valid work visa.

Regular foreign employees entering Russia on a visa basis shall initially obtain a single entry work visa, which shall be valid for a term of up to three months. This visa will be then converted into a multiple entry work visa valid for a term of up to one year with an option for further extension for a one-year period. Family members of such employees must obtain dependent visas under a similar procedure. Initially, they obtain a three-months' single entry dependent work visa, which shall be converted later on into a multiple entry dependent work visa.

HQS may right away obtain multiple entry work visas valid for a term of up to three years. Their accompanying family members can obtain dependent multiple entry work visas, which are also valid for a term of up to three years. HQS can take advantage of a simplified procedure for obtaining a residency permit, which offers them a number of benefits during their employment in Russia. A foreign HQS and his/her accompanying family members, including spouses, children (including adopted children), spouses of children, parents (including adoptive parents), spouses of parents, grandparents and grandchildren, can obtain residency permits valid for the duration of the HQS' employment contract.

The immigration authorities are stringent in making sure that foreigners' visas comply with their stated purpose of stay in Russia. Thus, 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 limitations do not apply to work visas). Business visas are issued for a period of up to one year. However, a business visa may be issued for a period of up to five years for a person if he/she is a representative of a major foreign company with major investments in the Russian economy or is participating in major investment projects (e.g. the Skolkovo Innovation Centre or the International Financial Centre project).

Exam in Russian language, history and fundamentals of Russian law

Under recent amendments to Russian immigration law, regular foreign employees entering Russia on a visa basis and regular foreign employees entering Russia on a non-visa basis must pass an exam in Russian language, history and the fundamentals of Russian law in order to obtain work permits. Citizens of the countries of the Eurasian Economic Union and HQS are exempt from this requirement.

The exam may be only taken in a number of certified educational institutions in Russia.

Immigration registration and notification requirements

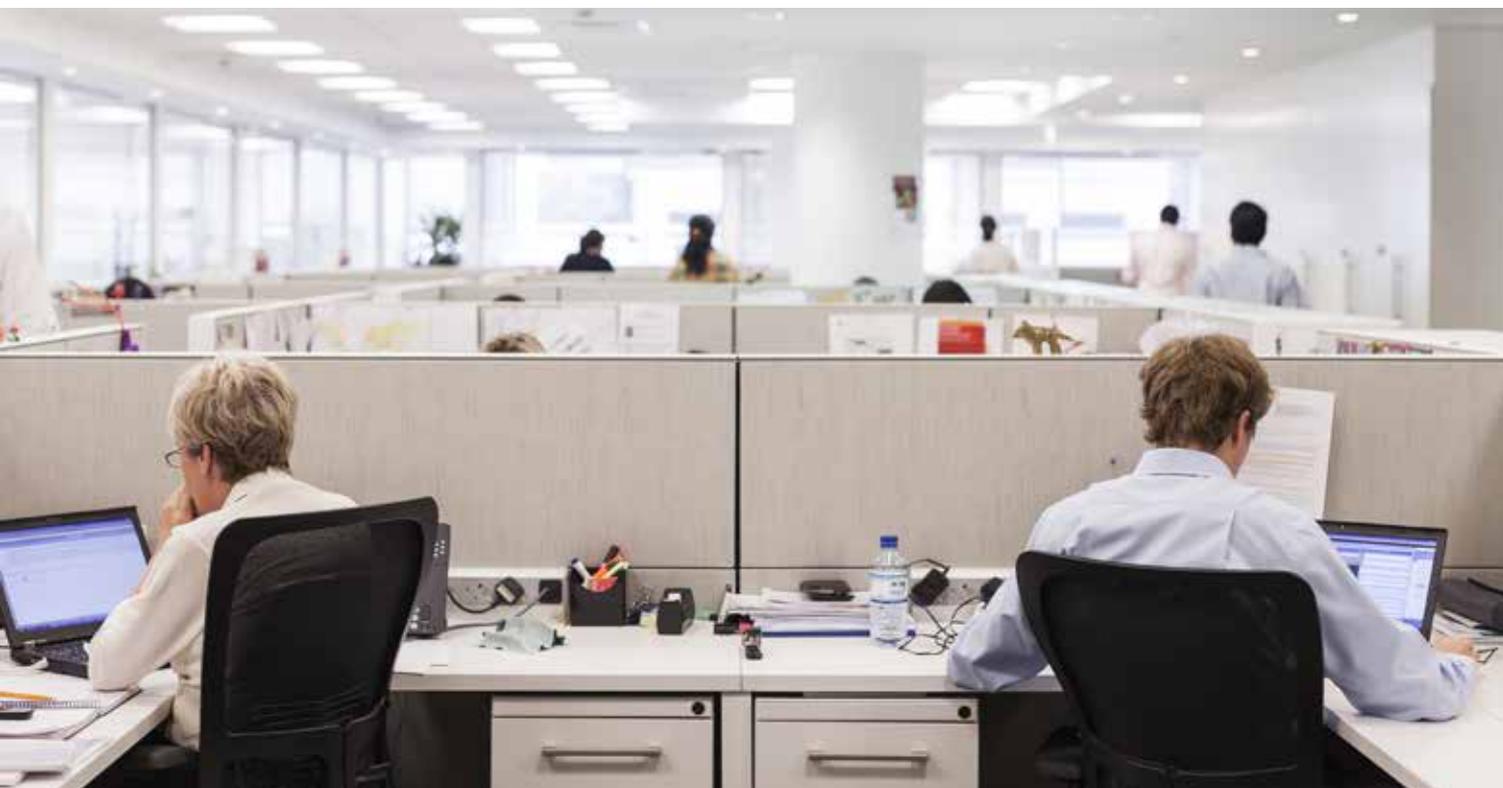
The authorities must be generally informed every time an expatriate employee enters Russia through the immigration registration of the expatriate. The same rule applies for family members of expatriate employees. Information about leaving Russia is provided to the Russian immigration authorities by the border control.

HQS and their family members, as well as citizens of the countries of the Eurasian Economical Union enjoy a simplified procedure for informing the authorities upon entry into Russia: HQS and their family members are exempted from the immigration registration requirements during the first 90 calendar days upon their entry into Russia, whereas citizens of the countries of the Eurasian Economic Union are exempt from such requirements for 30 calendar days upon their entry into Russia.

Failure to comply with immigration registration rules may result in fines of up to RUB 500,000 (about USD 8,250 as of March 2015) per employee (family member) per violation.

It is also important to remember that employers shall notify the immigration authorities on the conclusion of their employment agreement with an expatriate employee. This requirement shall apply to all four categories of expatriate employee listed above: foreign employees from the countries of Eurasian Economic Union, HQS, regular foreign employees entering Russia on a visa basis and regular foreign employees entering Russia on a non-visa basis.

Failure to comply with notification requirements may result in fines of up to RUB 1,000,000 (about USD 16,500 as of March 2015) per employee per violation depending on the Russian region where the violation was committed.



Accounting and auditing requirements

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 have been adopted by the Ministry of Finance.

Statutory financial statements to be prepared on a standalone basis include: a balance sheet, statement of financial results, statement of changes in equity, statement of cash flows, and notes to 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 State Statistics Service and the tax authorities. Annual financial statements should be submitted to the Federal State Statistics Service and to the tax authorities within three months after the year end. Russian legislation may also require submissions to other authorities.

An auditor’s opinion should be provided to the Federal State Statistics Service:

- along with audited annual financial statements within three months after the year end; or
- no later than 10 working days after the date of issue of the auditor’s opinion; but
- no later than 31 December of the year following the audited year.

Interim financial statements should be prepared on time and submitted to the authorities mentioned in Russian legislation (i.e. 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) (see Federal Law No. 208-FZ “On Consolidated Financial Statements”) and presented in Russian roubles only.

Securities issuers should publish standalone financial statements.

Consolidated financial statements must be published.

If audited financial statements are published, they should be published together with an auditor’s opinion.

Alexei Ivanov

Partner, Assurance Services Practice Leader, PwC Russia

The restrictions on import of certain products imposed by the Russian government affected the market for those products, creating shortages and leading to price increases. They did, however, also create entrepreneurial opportunities for the local development, production and sourcing of the sanctioned products. This is definitely a strong potential field for investments.



Auditing

Auditing requirements are set out in Federal Law No. 307-FZ “On Auditing”. The Ministry of Finance has adopted these standards for 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 revenue¹⁶ above RUB 400 million (around USD 6.5 million); companies with total assets over RUB 60 million (around USD 1 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; all 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.

¹⁶ 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.



Tax system and administration

Significant changes

A deoffshorisation law was adopted

The deoffshorisation law was adopted in November 2014. It is effective from 1 January 2015 and includes:

- Controlled foreign companies (CFC) rules;
- Updated tax residency rules for legal entities;
- A “beneficial ownership” concept;
- Updated rules on taxation of indirect sales of immovable property located in Russia.

Please see the “Group taxation” section for further details.

Tax manoeuvre law was adopted

The major amendments under the law are as follows:

- Shifting the tax burden in the oil and gas industry. Export customs duties on crude oil and petroleum products have been reduced while export duties on fuel oil and the Mineral Resources Extraction Tax (MRET) on oil have been increased. The procedure for calculating the MRET on gas and gas condensate has been adjusted.
- Increase of tax on dividends. The tax rate for dividend income has been increased from 9% to 13% for both

individual tax residents and Russian legal entities. The 9% rate does not apply starting from 2015. The law also eliminates the 30% penalty rate on dividends payable on the shares of Russian issuers recorded through depositary programmes and other accounts of foreign intermediaries.

- Updated property tax exemption. Starting from 2015, property tax is not charged on:
 - fixed assets included in the first or second depreciation groups (equipment used for up to three years);
 - movable property entered into a company’s books since 1 January 2013 as fixed assets, except for property obtained as a result of (1) reorganisation or liquidation of legal entities; or (2) transfer or acquisition from related parties.

The list of Russian taxes has been complemented with a trade levy

A new chapter on a trade levy was included into the Tax Code. It will apply in Moscow effective 1 July 2015.

The Moscow levy rates are differentiated for three of the city’s areas (taxpayers engaged in retail operations in the Central Administrative District will pay the most, while those operating outside of the MKAD Ring Road will pay the least).

The levy rates are specified for the following activities performed in Moscow:

- Trade through a stationary distribution network with no sales areas (except for gas stations) and non-stationary distribution network;
- Delivery and peddling retail;
- Trade through a stationary retail network (with retail space of up to 50 sq. m. and over 50 sq. m.);
- Organisation of retail markets.

For example, a store with a retail area of 1,000 sq. m. located in the city's Central Administrative District will pay RUB 430,000 annually.

The trade levy is deducted from profits tax, PIT or tax paid under a simplified taxation regime (depending on the type of income tax paid by the taxpayer). So, the total tax burden may stay the same for taxpayers with a sufficient amount of income tax. The levy will not be charged on warehouse and online sales in Moscow.

Significant changes expected in the near future

On 4 December 2014, President Vladimir Putin delivered his annual state-of-the-nation address to the Russian Federal Assembly. He proposed to freeze current tax rules for the next four years. With that said, the following initiatives will probably be introduced:

- Tax holidays for greenfield projects;
- Full amnesty for capital repatriated to Russia;
- Further enhancements to CFC rules.

Corporate taxation

Corporate residence

Tax residence rules for legal entities have been updated effective 1 January 2015.

Foreign legal entities managed from Russia can be recognised as Russian tax residents. Russian tax residency means that the worldwide income of such entities will be taxed in Russia.

The new rules set three basic and three additional criteria for determining place of management (among other things, they determine the place where the majority of meetings of the board of directors take place).

The new rules specify situations that do not affect the residency status (e.g. preparation of consolidated financial statements in Russia). Nevertheless, when assessing the risk of a company being deemed as a Russian tax resident, it is advisable to evaluate all facts and circumstances, even if formally the activities exercised in Russia are attributed to such exemptions.

The rules also specify two situations when a company may be deemed a Russian tax resident only on a voluntary basis:

- a company is permanently domiciled in a treaty country (and is a tax resident there under the relevant DTT);
- a company is a foreign holding company and complies with certain conditions.

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”.

Foreign legal entities pay tax on profits attributable to a PE. A PE's profits are computed on primarily the same basis as Russian legal entities, including composition of tax-deductible expenses. The Tax Code does not specifically mention the deductibility of expenses incurred abroad by a head office with respect to its PE in Russia (including a reasonable allocation of administration costs), although most double taxation treaties (DTTs) provide for such an option.

A special provision on taxable income of PEs has been recently introduced in Russian tax law. Taxable income of a PE in Russia should be determined while taking into account the PE's functions, assets, and economic/commercial risks. This provision does not contain any guidance on specific transfer pricing methods that taxpayers should follow. In addition, court practice regarding this approach has not yet been developed.

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

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

Group taxation

Consolidated taxpayer regime

The consolidated taxpayer regime is available for large Russian groups. A group can comprise two or more Russian entities where the direct or indirect equity interest of one member in the charter/share capital of the other members comes to at least 90%. In order to establish and apply this regime, all group members should meet the following requirements:

- At least RUB 10 billion in total profits tax, VAT, excise tax, and MRET paid during the year preceding the year of registration of a group taxpayer;
- At least RUB 100 billion in sales proceeds and other income;
- Total cost of assets of at least RUB 300 billion.

The advantages of applying this regime are the following: Firstly, transactions among members are not controllable under the new transfer pricing legislation (with one exception – transactions with mineral resources subject to MRET with a percentage rate are still subject to control). Secondly, for the purposes of calculating profits tax, it is possible to consolidate members' profits and losses.

A one-year moratorium has been imposed on the creation of consolidated groups in 2015 (CTG agreements registered in 2014 will be effective from 1 January 2016).

Controlled foreign companies (CFCs)

CFC rules have been in effect since 1 January 2015.

These apply to foreign companies and non-corporate structures (including trusts) controlled by Russian tax residents (controlling parties).

In particular, a controlling party of a CFC means an individual or legal entity with a direct or indirect interest in a CFC (for individuals — jointly with spouses and minor children):

- over 25%;
- over 10%, if total participatory interest of all Russian tax residents in the CFC is over 50%.

Please note that 2015 is a transition period, during which a higher participatory share threshold of 50% is applied.

Profits of certain CFCs will not be taxed in Russia, while the obligation to provide respective notifications will remain in place: a CFC is permanently domiciled in a "good" jurisdiction (treaty country except for those countries that do not exchange tax information with Russia) and EITHER has an effective tax rate of at least 3/4 of average weighted Russian tax rate OR the CFC's income from passive operations amount to no more than 20% of its income (there are a number of other exemptions).

A controlling party must submit documents to the tax authorities certifying compliance with the conditions under which CFC income is not taxable in Russia.

CFC income shall be subject to a 20% rate if the CFC is controlled by a legal entity and a rate of 13% if it is controlled by an individual. The profit amount can be reduced by dividends paid out of the CFC's profits (certain specific issues should be taken into account).

Russian tax will be imposed only on the profits of CFCs determined in periods starting in 2015. Such profit will be declared for the first time by Russian legal entities on 28 March 2017 in their corporate income tax returns for 2016 (individuals, respectively, will declare CFC profits on 30 April 2017).

CFC profit is taxed in Russia if it exceeds the threshold of RUB 10 million (other thresholds will apply in the transition period: in 2015 – RUB 50 million; in 2016 – RUB 30 million).

Profits of a CFC taxed in Russia shall be determined based on financial statements prepared in accordance with its personal law (on the condition that said financial statements are subject to mandatory audit under the CFC's personal law and that the company is permanently domiciled in a treaty country) or under Russian Tax Code (Chapter 25) rules in other cases.

The fine for underpayment of CFC tax is set at 20% of the underpaid tax amount, but not less than RUB 100,000. Fines shall not be levied during the transitional period (as pertaining to CFC profits of 2015-2017).

The law sets special rules for accounting for CFC losses, and also allows for credit on tax paid by CFC under foreign or Russian laws (including tax paid by the PE of a CFC in Russia).

Moreover, the law allows for deduction of profits of a CFC already accounted for by other Russian controlling parties in case of indirect participation in a CFC (with respect to participatory interest).

Tax relief is proposed for groups which decide to liquidate foreign structures falling under the CFC rules. Income in the form of property received by Russian shareholders will not be taxed, while the tax base of such property will be determined as its book value under the accounting data of the liquidated company (but not more than its market value or the actually paid cost of shares [participatory interest] in the liquidated CFC (the smallest out of three values should be taken). These provisions shall remain in effect until 1 January 2017.

If, before its liquidation, a CFC sells its securities and property rights to a Russian controlling party (or its affiliated company), the respective CFC's taxable profit in Russia would amount to zero (on the condition that the liquidation procedure is completed by 1 January 2017). The controlling party will accept such securities and property

rights in accordance with the CFC's accounting data, although no higher than at their market value.

Thus, the CFC may “transfer” the tax base of its assets to a Russian controlling party and no income will be taxable in Russia. Russian parties still have time to consider whether it is reasonable to apply the restructuring mechanisms established by lawmakers.

Taxpayers will have to file several types of notifications to the tax authorities, including:

- notifications on participation in foreign companies (if direct or indirect participatory interest is above 10%), as well as on incorporation of foreign non-corporate structures or control over such structures (certain specific aspects should be taken into account here). The fine for failure to provide this information or provision of misstated information is RUB 50,000;
- notifications on CFC (the fine for a failure to provide information or provision of misstated information is RUB 100,000 for each CFC).

Transfer pricing

New transfer pricing legislation that is essentially based on OECD principles came into effect on 1 January 2012. This legislation establishes a list of related parties, a list of controlled transactions, five TP methods for determining arm's length prices/profitability, a list of information sources, and compliance requirements.

The rules for concluding advanced pricing agreements (APAs) for Russian companies registered as the “largest” taxpayers were also established. However, APAs are still not widely used by business.

Tax incentives

At present, there are several types of incentives 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 related to certain activities (e.g. activities related to R&D, information technologies, etc.);
- Incentives related to particular projects (e.g. Skolkovo, FIFA 2018, etc.).

It is also worth mentioning that Russian tax law provides for special tax regimes to support small and medium-size businesses. These include a unified regime and simplified regimes, as well as a unified agricultural tax.

Regional incentives

Regional incentives in the form of reduced rates for taxes payable to regional budgets (primarily profits tax and property tax) are granted to certain classes of taxpayers (typically, large investors or entities operating in specific industries).

Russian Far East incentives

Tax breaks for investment projects in several Far Eastern and Siberian regions have been effective since 1 January 2014. The new law establishes a zero rate for profits tax payable to the federal budget and allows investors in the 13 eligible regions to use lower regional tax rates. So, in contrast to the regular 20% rate, the beneficial tax rate adopted by most of these regions usually comes to 0% during the first five years from the date the first income from the sales of goods under an investment project is generated, and then 10% over the following five-year period.

In addition, reduced rates have been introduced with respect to the MRET payable by participants in regional investment projects. They apply to a whole range of mineral resources, including gold, coal, ferrous and non-ferrous mineral ores, etc.

The law sets thresholds for capital investments and timeframes for their implementation according to the specifics of a given investment project of:

- at least RUB 50 million within three years; or
- at least RUB 500 million within five years.

An investment project must be focused on producing goods exclusively within one of the eligible Russian constituent regions.

In addition, fast-track development zones (FDZ) will be created in the Russian Far East. FDZs will offer special terms for doing business for start-up companies, including tax holidays and simplified rules for hiring foreign employees.

Special economic zones (SEZs)

The following types of SEZ are established in Russia:

- Technical research and implementation zones for scientific projects;
- Industrial production zones to develop industrial products;
- Tourism-recreation zones for the development and effective use of Russian tourist resources;
- 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 coefficient of 1.5;
- Fixed assets used in science and technology may be depreciated with an accelerated coefficient of up to 3;
- Reduced rates for contribution payments to social funds are established for information technology (IT) companies.

Special project incentives

Participants in the Skolkovo Innovation Centre enjoy a number of benefits, the primary ones of which are the following: exemption from profits and property taxes, exemption from VAT obligations, and reduced rates for mandatory contributions to social funds.

Profits tax

Tax rate

The maximum profits tax rate for all taxpayers in the Russian Federation is set at 20% (2% is paid to the federal budget and 18% is paid to the budgets of constituent regions). The amount payable to the budgets of constituent regions may be reduced by the regions. So, the total minimum tax rate may come to 15.5% (e.g. a rate of 15.5% has been established for certain categories of taxpayers in Moscow, St Petersburg, the Samara Region, the Kaluga Region and several other regions).

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

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

Income determination

The accounting period in Russia is a calendar year. 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 computed following the rules and principles established in the Tax Code. 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 apply adjustments so as to arrive at taxable income.

Inventory valuation

Inventory can be valued using one of the following methods: “first in first out” (FIFO), 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 in order to arrive at the taxable income.

Starting from 2015, the number of tax baskets for taxpayers performing operations with securities and derivatives has reduced from four to two: (i) general and (ii) results from operations with non-listed securities and non-listed derivatives. The loss on the second basket cannot be offset with profits on the first basket (however, the opposite offset is possible).

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 resulting from the sale of fixed assets should be deducted in equal monthly instalments during the period, defined as the difference between their normative useful life and the actual time of use.

A significant 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 have been continuously held by the taxpayer on the basis of 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 0% tax rate:

- The shares have been non-listed securities over the entire period of the taxpayer’s ownership;
- The shares are listed securities, and the company issuing shares has taken part in the technology/innovation sector of the economy over the entire period of the taxpayer’s ownership;
- As of the date of acquisition by the taxpayer, the shares qualified as non-listed securities and, as of the date of their sale by this taxpayer or of another disposal (including redemption) by this taxpayer, they are listed securities of the high technology/innovative sector of the economy;
- Less than 50% of total assets of the company issuing shares are represented by real estate in Russia (directly or indirectly).

Beneficial tax treatment will 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 13% flat rate.

Dividends received from “strategic investments” are exempt from Russian income tax. An investment is considered strategic when:

- The owner (recipient of dividends) owns at least 50% of the capital of the payer of dividends or owns depository receipts entitling it to receive at least 50% of the total amount of paid dividends; 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 this tax exemption. The list of offshore zones is established by the Ministry of Finance.

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

The 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 tax may be reduced based on a relevant DTT, usually to 10% or 5% (please see the “Withholding taxes” section for more details).

Interest income

Interest income is taxed on an accrual basis. A standard tax rate of 20% is applied to interest income, except for 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 (typically to zero) according to the relevant tax treaty.

The level of interest income recognised for tax purposes may be subject to control (see the “Interest expense” section for more details).

Exchange gains and losses

Starting from 2015, foreign exchange gains and losses are recognised for tax purposes on an accrual basis only.

Under the previous rules, gains and losses from settlements in a local currency of amounts denominated in (tied to) a foreign currency was taxable (deductible) on payment. For contracts concluded before 1 January 2015, the previous rules still apply.

Foreign income

Russian legal entities pay tax on their worldwide income. 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.

Current tax legislation does not contain provisions that allow tax deferral with respect to foreign income.

Deductions

Expenses are deducted on an accrual basis. The main criteria for deductibility of expenses is that the expense is (i) incurred in the course of an 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 are allowed: the straight-line method and the declining-balance method. The ranges of useful lives of assets for tax purposes are established in the Classification of Fixed Assets adopted by the Russian Government, for example:

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

Accelerated depreciation is permitted in respect to some types of property (a special ratio of up to 3 may be applied). It is prohibited to apply several special coefficients to a normal rate of depreciation.

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

Intangible assets are amortised over their useful life or over ten years (two years for certain types of intangible assets) if their useful life cannot be determined.

Goodwill

Under tax law, a mark-up (the difference between the acquisition value and net assets of the business [property complex] purchased) should be recognised as goodwill for tax purposes and may be amortised by a buyer over five years. However, this tax regime often does not apply, since a business (subject of a deal) needs to be registered as a property complex with the state authorities. However, sellers almost never do this.

Start-up expenses

Russian tax law does not contain specific provisions on the deductibility of start-up expenses. In some cases, they may be deducted neither by a parent company nor by a subsidiary for tax purposes.

Interest expenses

Starting from 2015, the tax authorities can audit interest income and expenses only for transactions that are controlled under the Russian transfer pricing rules (that means transactions with related parties in most cases) and only in accordance with these rules.

In Figure 11, we show how the new rules are applied to interest accrued since 2015.

The market corridors (safe harbours) are shown on Figure 12.

Bad debt

Losses in the form of bad debts 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 as it is based only on the overdue payment period (i.e. if the delay exceeds 90 days, the full amount of the account receivable is included in the reserve).

Charitable contributions

Russian tax law does not foresee any benefits with respect to charitable contributions. Such expenses are not deductible for tax purposes.

Research and development (R&D) expenses

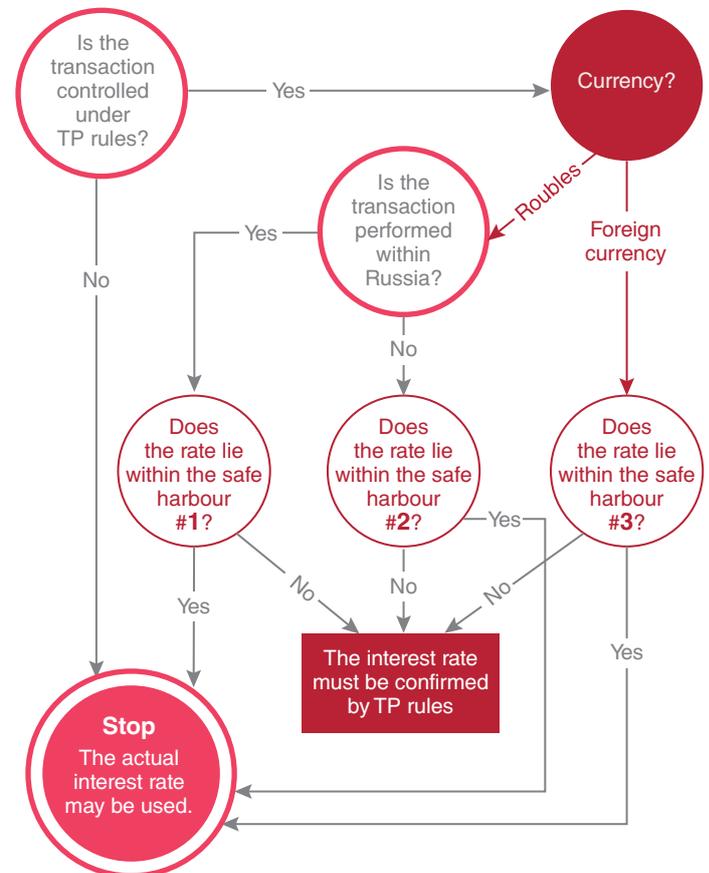
R&D expenses (including R&D with a negative result) are currently deductible within one year after completion. Certain R&D expenses may be deducted using a coefficient of 1.5. The list of R&D categories is determined by the Russian Government. A provision for future R&D expenses may be accrued for tax purposes.

Insurance premiums

Expenses related to all types of obligatory insurance are deductible and subject to state tariff limitations, wherever established. Voluntary insurance expenses are deductible to the extent that they relate to the insurance of damage and losses related to certain classes of assets, and the insurance of construction activity risks. Contract liability insurance expenses are deductible to the extent that such 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 a limit of 12% of the payroll fund. Voluntary medical insurance is deductible within a limit of 6% of the payroll fund.

Figure 9 The new interest rules accrued since 2015



Fines and penalties

Fines and penalties paid to contractors for violating contractual terms may be deducted for tax purposes.

Fines and penalties paid to a budget are not deductible.

Taxes

Taxes paid by a taxpayer, as well as social contributions of employers, are deductible for tax purposes.

A trade levy is credited against profits tax.

Net operating and capital losses

Tax losses may be carried forward for up to 10 years without limitation (i.e. they can be used to offset entire taxable profit before a loss carryforward deduction). Carryback of losses, however, is not allowed.

Losses from the sale of fixed assets are recognised evenly during the asset's remaining useful life.

Losses and income from different tax baskets are determined separately (please see the "Capital gains" and "Income determination" sections for more details).

Figure 10 The market corridors (safe harbours)

Debt currency	Safe harbour #1	Safe harbour #2	Safe harbour #3				
		RUB	EUR	CNY	GBP	CHF or JPY	Other
	0-180% of the CBRF key rate (in 2015)	from 75% of the refinancing rate to 180% of the CBRF key rate (in 2015)	EURIBOR +4%	SHIBOR +4%	LIBOR in GBP +4%	LIBOR in relevant currency +2%	LIBOR in USD +4%
	75-125% of the key rate (since 1 January 2016)	75-125% of the key rate (since 1 January 2016)	EURIBOR +7%	SHIBOR +7%	LIBOR in GBP +7%	LIBOR in relevant currency +5%	LIBOR in USD +7%

For example, in 2015, taxpayers will have to comply with the following ranges:

- for controlled rouble loans between Russian entities – from 0% to 27%;
- for other controlled rouble loans – from 6.19% to 27%;
- for controlled euro loans – from EURIBOR +4% to EURIBOR +7%.

Payments to foreign affiliates

There are no special tax provisions with respect to the deductibility of payments to foreign affiliates for services provided. They may be deducted in full if general deductibility criteria are met. Charges with respect to administrative support provided by foreign affiliates may be deductible. However, due care should be taken with regard to the documents used to support the nature and actual receipt of service.

Thin capitalisation

Under the Russian Tax Code, interest on loans received from foreign shareholders (as well as their Russian affiliates, or loans guaranteed by foreign shareholders or their Russian affiliates) owning more than 20% of capital is deductible, provided that the loans do not exceed the amount of equity by three times (12.5 times for banks and leasing companies). If loans exceed this limit, excess interest on the loans will be reclassified for taxation purposes as dividends paid to foreign shareholders. Such 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).

Temporary changes (from 1 July 2014 to 31 December 2015) due to the significant drop in the Russian rouble's exchange rate in 2014 were also introduced. In particular, currency exchange rates were frozen as of 1 July 2014 with respect to "old" loans (obtained before 1 October 2014) for the purpose of calculation of the borrower's net assets as many taxpayers could not meet the 3:1 criteria.

Withholding taxes

Under the general provisions of the Tax Code, 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 located in Russia or non-listed shares in Russian subsidiaries where the immovable property located in Russia represents more than 50% of assets).

Taxation of margins (rather than gross income received from the above sales) may be applied only if proper documentary support of expenses is available.

Income of foreign organisations (not performing activities in Russia through a PE) from the sale of certain listed securities of Russian entities (and their derivatives) is not regarded as income derived from sources in Russia subject to WHT.

The list of exempt income (not subject to WHT) also includes: (1) interest payments on Russian state securities; (2) interest payments on tradable bonds, issued in accordance with the laws of foreign states; and (3) payments made by Russian companies to finance coupons on Eurobonds issued by special purpose vehicles incorporated outside of Russia. Tax should be withheld by the tax agent and paid to the Russian budget. WHT rates may be reduced under a relevant DTT, provisions of which may be applied based on confirmation of tax residence, which is to 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) and also as long as general conditions are fulfilled (proof of beneficial ownership, etc.).

The Russian tax authorities recognise the terms of former USSR treaties until they are renegotiated by the Russian Government. Furthermore, the list of effective tax treaties is continuously updated.

Other taxes

Customs processing fee

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

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 established in the Tax Code. The rates are widely variable and are based on various factors.

Property tax

The maximum property tax rate is 2.2%, and regional legislative bodies have the right to reduce this rate.

The property tax is charged on fixed assets only (including leased out property). Intangible assets, inventories, work-in-progress, and financial assets are not subject to property tax in Russia.

Property tax is not charged on:

- fixed assets included in the first or second depreciation groups (equipment used for up to three years);
- movable property entered into a company's books as of 1 January 2013 as fixed assets, except for property obtained as a result of (1) reorganisation or liquidation of legal entities; or (2) transfer or acquisition from related parties.

From 2015 through 2034, a zero rate applies for trunk gas pipelines and structures constituting integral parts of said pipelines, as well as gas production project sites and helium production and storage facilities, subject to certain conditions (e.g. initial commissioning after 1 January 2015).

At the same time, the property of natural monopolies, which was previously exempt, is now taxed. The tax rates applicable under the laws of Russia's constituent regions to public rail roads, trunk pipelines, power lines and facilities constituting an integral technical component of the above objects, cannot exceed 1% in 2015, 1.3% in 2016, 1.6% in 2017, and 1.9% in 2018.

In most cases, the average book value of fixed assets is taxed.

Starting from 2014, certain real estate objects are taxed based on their cadastral value (that is close to their market value), namely:

- Administrative and business centres;
- Shopping centres and premises therein;
- Offices, retail outlets, public eateries, and consumer facilities;
- Immovable property of foreign entities with no permanent establishment (PE) in Russia or not related to their operations through a PE in Russia.

The following maximum tax rates for real estate subject to the new rules may apply under the Tax Code: 1.5% in 2015, and 2% in 2016 and subsequent periods.

Tax rates within these limits, as well as the particularities for determining the tax bases for certain objects, are currently being set by constituent regions. The Moscow tax rate for such property is respectively established as 1.2% in 2015, 1.5% in 2016, 1.8% in 2017, and 2% in 2018 and subsequent periods.

Transport tax

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 may differ based on engine capacity, gross tonnage, and type of transport. The actual rates in Russia's regions may be subject to a maximum ten-fold increase/reduction by the legislative bodies of the relevant Russian Federation constituent regions. Reporting and payment rules have been established by regional legislative authorities.

The transport tax on luxury cars has been increased since 2014. The multiplier (up to 3) depends on the age and cost of the car. For example, in Moscow, the tax may reach RUB 200,000 per year for the most high-end class of vehicle.

Social contributions

Annual salaries of all employees are taxed under the following rules (effective 2015):

- Contributions to the Social Insurance Fund: only the first RUB 670,000 is taxed (at a rate of 2.9%);
- Contributions to the Pension Fund: the first RUB 711,000 is taxed at 22%, and the excess is taxed at 10%;
- Contributions to the Medical Insurance Fund: a 5.1% rate applies to the total salary.

Remuneration of foreign nationals temporarily staying in Russia is covered by 1) pension insurance contributions at a rate of 22% within the threshold of RUB 711,000 and a 10% top-up charge on remuneration paid in excess of the threshold; and 2) social insurance contributions at a rate of 1.8% within the threshold of RUB 670,000. The only exception made is for highly qualified specialists (with a respective work permit).

Mineral Resources Extraction Tax (MRET)

The MRET calculation depends on the type of mineral resource.

The MRET for coal, oil, gas and gas condensate is calculated using the extracted volume of the respective resource. The tax rate is established as a fixed rate multiplied by various coefficients linked to world prices and field characteristics. A zero MRET rate applies to oil extracted from green fields in certain regions of Russia (e.g., Eastern Siberia, internal and territorial waters located in the northern polar zone, the Azov and Caspian seas, and the Yamalo-Nenets Autonomous Okrug) during their initial production stage.

The MRET on other natural resources depends on the value of the resources extracted. The tax rate varies from 3.8% to 8%. For instance, the rate is 3.8% for potassium salt, 4.8% for ferrous metals, 6% for products containing gold, and 8% for non-ferrous metals and diamonds.

Starting from 2014, the reduced MRET rates apply to investors in Russia's Far East (see the "Tax incentives" section for more details).

From 2015, the procedure for calculating the MRET on gas and gas condensate has been adjusted.

Tax administration

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

Taxable period

The taxable period runs from 1 January to 31 December.

Tax returns

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

Payment of tax

Companies pay advance profits tax payments on a monthly basis. The final payment for the year is due by 28 March of the following year.





Tax litigation

Tax dispute resolution at the pre-trial (administrative) stage

Tax disputes happen quite frequently in Russia. Most corporate taxpayers have to go through the tax litigation process at least once while doing business in the country.

At present, if taxpayers seek to challenge decisions and other documents/actions (or failure to act) of the tax authorities in court, before going to court, they must first contest such decisions/actions with the relevant higher tax office.

In recent times, tax disputes have been increasingly resolved at the pre-trial (administrative, superior tax office) stage. However, taxpayers cannot formally negotiate tax audit results or enter into formal settlement agreements with the tax authorities at the pre-trial stage. So, in many cases, they still must litigate in order to uphold their rights.

Tax dispute resolution in court

Taxpayers can file claims against the tax authorities through the *arbitrazh* courts (i.e. courts that review and resolve economic disputes mainly among legal entities/entrepreneurs or between legal entities/entrepreneurs and state authorities, including the tax authorities). Claims may be filed with a court within three months after a contested decision takes effect or within three months after a taxpayer discovers that its rights have been violated (provided that the taxpayer has already sought redress through the mandatory pre-trial stage mentioned above).

Courts of the first instance (first level) initially review disputes and issue decisions. Decisions of a first instance court can be appealed to appellate courts (second instance or level) and cassational courts (third instance or level). If litigation goes through all three instances (levels), the process usually takes from nine to 12 months on average.

Resolutions/decisions of courts at these three levels may be appealed to the Russian Federation Supreme Court (as a supervisory authority). However, in practice very few such disputes are actually heard by the Supreme Court.



Value added tax

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 a 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. The Russian VAT system, although not originally based on the European Union (EU) model has nonetheless moved more towards it. However, it still currently differs from the EU VAT system in various ways.

Output VAT

VAT usually applies 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, certain printed publications, etc.). The same VAT rates apply for imports of goods into Russia.

Exports of goods, international transportation and other services related to the export of goods from Russia, international passenger transportation, and certain other supplies are zero-rated with a right of input VAT recovery. The application of a 0% VAT rate and recovery of the respective input VAT should be confirmed by submitting a number of documents to the tax authorities within

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VAT remains important for Russian taxpayers. The tax authorities have increasingly focused on control of VAT calculations and reporting. Taxpayers are advised to allocate adequate resources to comply with VAT requirements and maintain relevant internal control processes.

certain time limits. Special rules are in place regarding the documentary confirmation of the right to tax export supplies to Eurasian Economic Union member countries at a 0% VAT rate, including input VAT recovery rights.

The list of VAT-exempt goods and services includes basic banking and insurance services, services provided by financial companies (depositories, brokers and some others), educational services by certified establishments, the sale of certain essential medical equipment, passenger transportation, warranty services and certain other socially important services. Most accredited offices of foreign legal entities (as well as the accredited employees of these offices) may be exempt from VAT on property rental payments. Performance of VAT-exempt supply does not provide the right of recovery of attributable input VAT. Instead, costs associated with non-recoverable input VAT are, in most cases, deductible for profits tax purposes.

Withholding VAT

Russian VAT law provides rules for determining where services are supplied in terms of VAT. These rules divide all services into different categories in order to determine where they are deemed to be supplied for VAT purposes. For example, certain services are deemed to be supplied where they are performed, some where the “buyer” of the services carries out the activity, and others where immovable property is located, etc.

Under the reverse-charge mechanism, a Russian company must account for VAT on any payment it makes to a non-tax registered foreign company, if the payment is connected to a supply of goods or services considered to be supplied in Russia, based on the VAT place of supply rules and not falling under any VAT exemption based on domestic VAT law. In such circumstances under the law, the Russian buyer shall act as a tax agent for Russian VAT purposes by withholding Russian VAT at the rate of 18/118 from payments to the foreign supplier and remit such withheld VAT to the Russian budget. The withheld VAT may be recovered by the Russian payers in accordance with the standard input VAT recovery rules as provided by law.

Input VAT recovery

Taxpayers are usually eligible to recover input VAT associated with the purchase of goods, work, services, or property rights, provided the set of rules established by the VAT legislation is met.

Input VAT can potentially be recovered by the taxpayer in the following cases:

- VAT related to goods, services, or work acquired for the purpose of conducting VATable transactions;
- VAT related to purchased goods, work, or services used in non-VATable transactions if the portion of expenses related to non-VATable operations does not exceed 5% of the total amount of expenses;
- Input VAT related to advance payments performed for Russian suppliers of goods (work, services) provided that such acquired goods (work, services) are aimed at being used in VATable activities.

VAT compliance requirements

Each taxpayer performing supply of goods, work, services, or property rights is liable to issue VAT invoices and provide them to customers. VAT invoices shall be issued within five days after the supply has taken place. The VAT invoice is a standard form as established by the Government. Compliance with invoicing requirements is critical to the buyer's ability to recover input VAT.

Incoming and outgoing VAT invoices should usually be registered by taxpayers in special purchases and sales VAT ledgers.

VAT returns must be submitted to the tax authorities on a quarterly basis. Starting from 2014, only electronic VAT returns may be filed. Starting from 2015, purchases and sales books and respective journals of issued VAT invoices are attached to the electronic VAT return, so that the tax authorities receive information on all VAT invoices and will be able to reconcile all input and output VAT amounts in Russia. VAT must be paid to the Russian budget after the end of each quarter in three instalments not later than the 25th day of each of the three consecutive months following the quarter, except for remittance of VAT withheld by Russian buyers under the reverse-charge mechanism, which is to be transferred to the Russian federal budget on the date of the external payment.

Import VAT

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

A limited scope of goods is eligible for exemption from import VAT. The list of such goods includes, for example, certain medical products and goods designated for the diplomatic corps. Relief from import VAT is available on certain equipment (including their components and spare parts), which is not produced in Russia. The list of such equipment has been established by the Russian Government.

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 for goods imported and their country of origin (generally, the rate varies from 0% to 20% of the customs value of imported goods). The rates have been reduced for a number of goods due to Russia's accession to the WTO. There is special relief from customs duties for qualifying goods contributed to the charter capital of Russian companies with foreign investments.

The foundation of the Eurasian Economic Union and deeper integration between Russia, Belarus, Kazakhstan and Armenia (hereinafter, “the EAEU”) has resulted in unification of the customs legislation of the EAEU members, as well as the creation of a single customs territory, within which goods in mutual trade between the member states are moved without any clearance formalities. Members of the EAEU should apply a unified customs tariffs and customs valuation methodology, as well as general rules of non-tariff regulation and uniform technical regulations, etc.



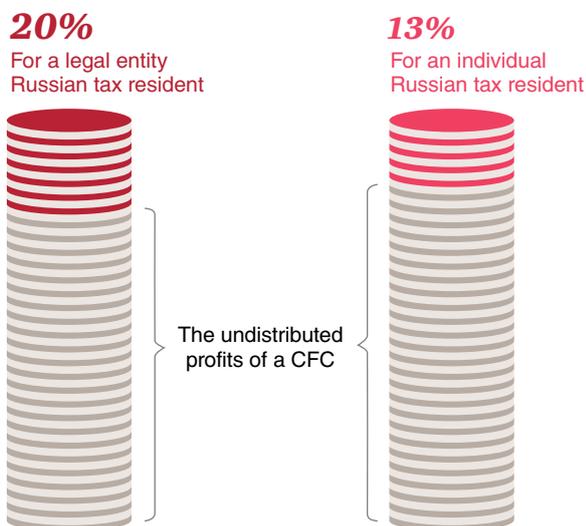
CFC rules in Russia

Definition of a CFC

Controlled foreign company (CFC) rules have been in effect in Russia since 1 January 2015.

Under the Russian CFC rules, the undistributed profits of a CFC that is controlled by a Russian tax resident are subject to tax in Russia on an annual basis (at the 20% profits tax rate if the controlling person is a legal entity Russian tax resident, or at the 13% personal income tax rate if the controlling person is an individual Russian tax resident).

Figure 11 Annual profits tax rate in Russia



An entity is deemed a CFC (structure) if it meets the following conditions:

- it is not considered to be a Russian resident for tax purposes; but
- it is controlled by a Russian tax resident (control is determined based on ownership share and other metrics as outlined below).

A controlling person is defined as:

- a person whose direct and/or indirect participating interest in a foreign company, jointly with spouse and minor children, is more than 25%; or
- a person who directly or indirectly owns more than 10% of a foreign company if Russian tax residents, jointly with their spouses and minor children, hold a direct or indirect interest(s) in the foreign company in excess of 50%.

During the transitional period (until 1 January 2017), the threshold for both criteria is 50%.

The definition of “control” is rather broad and thus could be construed to mean that control exists even when the percentage of a shareholding (interest) is less than the thresholds noted above. For example, the CFC rules stipulate that control may exist based on a management agreement or other means of control. As well, control may be established directly or indirectly. The existence of control should be determined on a case-by-case basis.



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In the world of international tax structuring, different eras have had different mottoes. A long time ago it was “secrecy”, then it was “a low tax bill”. Now, it’s “justice”. Throughout the world, the idea of “justice” now lies at the heart of modern fiscal systems. Russia has enacted a law on “deoffshorisation”, while the OECD and G20 have been discussing, and are already implementing, country-by-country reporting. In our view, the strategy of today’s corporate taxpayer should be to fully comply with current and anticipated tax law requirements while simultaneously achieving maximum tax efficiency.

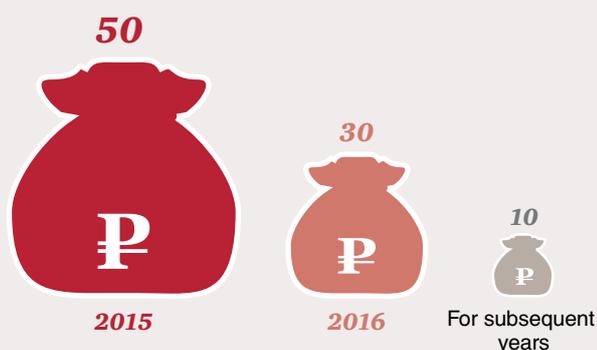
Available CFC exemptions

The CFC Law provides that profits earned by the following types of companies (structures) are exempt from CFC taxation in Russia:

- non-profit organisations that do not distribute profits;
- companies incorporated in the Eurasian Economic Union;
- companies with residency in jurisdictions that share tax-related information with Russia and that pay tax at an effective rate equal to at least 75% of the Russian blended tax rate;
- companies with residency in jurisdictions that share tax-related information with Russia and that qualify as “active companies” as defined by the CFC Law (i.e. companies deriving less than 20% of their total income from passive sources, such as dividends, royalties, interest, rental/lease income, capital gains, consulting fees and certain other types of income);
- charity-like foreign structures that do not require the creation of a legal entity, provided that certain conditions are met (one of the key conditions is that such a structure should not have the ability to distribute profits under its incorporation documents and the laws of its home jurisdiction);
- banks and insurance companies if they operate in a jurisdiction that shares tax-related information with Russia;
- issuers of certain types of listed bonds or an organisation authorised to earn interest income payable on listed bonds, or an organisation that is an assignee of the rights and obligations related to listed bonds issued by another foreign company, subject to certain conditions (e.g. the interest income earned should equal at least 90% of the company’s total income for the period);
- companies participating in a production sharing agreement (PSA), concession agreement or similar contract signed with the government of the relevant country, provided that the relevant income amounts to at least 90% of the company’s total income for the period; or
- operators of continental shelf projects and their direct shareholders (participants).

In addition, de minimis exemptions from the CFC rules are available for profits below the following thresholds: for 2015 (RUB 50 million), for 2016 (RUB 30 million), and for subsequent years (RUB 10 million).

Figure 12 Thresholds for exemptions, RUB million



These exemptions may be applied by Russian controlling parties when calculating their taxable base in Russia. If such an exemption is applicable, then a CFC's profits should not be included in the taxable base of its controlling party in Russia. The Russian tax authorities are entitled to verify a taxpayer's eligibility for such exemptions.

Calculating taxable profits

The taxable profits of a CFC are calculated using one of the following two methods:

- If the CFC is incorporated in a jurisdiction that has an agreement on tax matters with Russia, then its profits are calculated based on its financial statements prepared in accordance with the laws of its home jurisdiction (provided that the financial statements are subject to mandatory audit);
- In all other cases, profits are calculated in accordance with the requirements of the Russian Tax Code. This method is more burdensome and likely to result in a higher Russian tax bill in most cases, as the Russian Tax Code imposes a number of strict conditions on the tax deductibility of expenses.

A CFC's taxable profits may be reduced by the amount of dividends paid from such profits during the tax year in which they were generated (interim dividends) and the subsequent 12 months.

Losses incurred by a CFC may be carried forward without any time limitations with respect to income from such CFC (subject to certain restrictions). Losses incurred by a CFC before 1 January 2015 may be carried forward up to the amount of losses for the three financial years preceding 1 January 2015, and may be deducted from the CFC's tax base.

Relief from foreign taxes

A foreign company's taxes paid on the profits of a CFC, either under Russian law or the laws of a foreign jurisdiction, may generally be offset against Russian tax liabilities charged on the CFC's attributed profits.

Implications for affected entities

If none of the available exemptions may be applied, the CFC's chargeable profits must be apportioned among the relevant Russian controlling persons in proportion to their interest(s) in the CFC, and such persons should be taxed on their portion(s) at the applicable rate. However, Russian CFC rules have no implications for the CFC itself.





Corporate governance

Russia's regulatory environment with respect to corporate governance

- Federal Law No. 208-FZ "On Joint-Stock Companies" of 26 December 1995;
- Federal Law No. 39-FZ "On the Securities Market" of 22 April 1996;
- Federal Law No. 208-FZ "On Consolidated Financial Statements" of 27 July 2010;
- Regulation on the disclosure of information by issuers of equity securities approved by Order of the Federal Service for Financial Markets No. 11-46/pz-n of 4 October 2011;
- Order of the Federal Service for Financial Markets of Russia No. 13-62/pz-n of 30 July 2013;
- Listing rules of MICEX Stock Exchange CJSC (registered by the Financial Markets Service of the Bank of Russia on 7 February 2014);
- Corporate Governance Code (approved by the decision of the Board of Directors of the Bank of Russia on 21 April 2014).

One of the key events in 2014 was the approval of a new **Corporate Governance Code** (hereinafter, the "Code") which, being the guide for best standards and practices, was intended to help Russian companies move to a new level of corporate governance while also increasing their attractiveness in the eyes of Russian and foreign investors.

On the whole, the Code is recommendatory. However, its separate principles and provisions found their reflection in the listing rules and are a mandatory condition for the inclusion of shares in the first and the second quotation tiers.

Shareholder rights

Russian law gives shareholders, including minority owners, a wide range of rights to participate in company management, as well as provides clear requirements for the convocation, preparation and holding of general meetings of shareholders. Some issues not regulated by the law on JSC,¹⁷ are covered in the Code (e.g. inadmissibility of participation of "quasi-treasury" stock in company management). The Code also contains provisions related to setting stricter requirements (in line with the best corporate governance practice) by companies as compared to the requirements found in the law. Some of the provisions in the Code found are reflected in the requirements for corporate governance expressed in the new listing rules.

¹⁷ Federal Law No. 208-FZ "On Joint-Stock Companies" of 26 December 1995.

There is the special issue in regards to the exercising of rights in order to participate in profit sharing among shareholders. In accordance with the new listing rules for share inclusion in the first tier, it is necessary to have a document that defines the issuer's dividend policy as approved by the issuer's board of directors. Detailed practical recommendations on defining a dividend policy are available in the Code (including recommendations establishing a procedure for determining the minimal share of the consolidated net profit aimed at dividend payment).

Boards of directors

The board of directors is the key element within a company's corporate governance ensuring the general supervision of its activity.

The law on JSCs determines the main areas of competence for the board, sets general requirements as to the board's composition, determines the functions of the chairperson and establishes general requirements for the order of preparation and holding of board meetings. A number of major issues are covered in the Code in the form of recommendations for establishing a balanced board of directors, its role and functions, structure, composition and the role of committees, organisation of activity of the board, evaluation and improvement of its efficiency, as well as remuneration of board members. The Code provides practical guidance on how the board of directors should go about the performance of its key functions, and offers specific tools and mechanisms that should be used in this regard. In addition, a number of issues related to the election of independent directors and formation of committees are also reflected in the listing rules.

Formation of the boards of directors, selection of independent directors

Size matters

According to the Code, the quantitative composition of a board of directors shall allow for the organisation of its activities in the most efficient manner, including the option of forming committees, as well as providing significant minority shareholders with an opportunity to elect candidates of their choice.

The optimal number of board members may vary depending on the sphere of the company's activities and can change over time as a business grows.

Independence of boards of directors

Although the law on JSCs limits the share of places occupied on a board of directors by a companies' top executives (who, under law, include the sole executive body and members of the collegial executive body) to one-fourth of its composition, this is not an absolute guarantee that the interests of all shareholders will be met. Efficient operation of any board requires the presence of independent directors.

Figure 13 Requirements and recommendations regarding the number of independent directors

Requirements for listing rules		Recommendations of the Code
First tier	Second tier	
<ul style="list-style-type: none"> At least 1/5 of the Board of Directors, at least three 	<ul style="list-style-type: none"> At least three 	<ul style="list-style-type: none"> At least 1/3 of the Board of Directors

The criteria used by companies to determine the independence of their board members are of great importance. The new Code provides expanded and supplemented *independence criteria* that are comparable or often more stringent than the criteria applied in global best practices. They thus form the basis of the independence criteria presented in the new listing rules.

The objectivity of a board and its independence from management can be enhanced further by separating the functions of the chairperson and executive management functions, as well as election of an *independent chairperson*.

Balance of knowledge and experience

To be highly efficient, a board of directors should be balanced in its composition, inter alia, in terms of the qualifications of its members, their experience, knowledge and professional qualities. Also, the board should necessarily enjoy the trust of shareholders. Therefore, the Code recommends the election of board members who have impeccable business and personal reputations, as well as the knowledge, skills and experience required to make decisions within the competence of the board and required for the effective discharge of its functions.

Figure 14 Requirements and recommendations regarding the composition of boards of directors

	Requirements of listing rules		Recommendations of the Code
	First tier	Second tier	
Audit committee	<ul style="list-style-type: none"> Only independent directors¹⁸ Committee has an independent chairperson 	<ul style="list-style-type: none"> Only independent directors¹⁹ Committee has an independent chairperson 	<ul style="list-style-type: none"> At least three members of the board of directors Only independent directors At least one independent director with expertise and experience in the preparation, analysis, evaluation and audit of accounting (financial) statements
Remuneration committee	<ul style="list-style-type: none"> Only independent directors¹⁸ 	–	<ul style="list-style-type: none"> At least three members of the board of directors Only independent directors Independent chairperson on the committee who does not chair the board of directors
Nominations committee	<ul style="list-style-type: none"> Only independent directors¹⁸ 	–	<ul style="list-style-type: none"> At least three members of the board of directors Mostly includes independent directors

Formation of board committees

Structure of committees

Among the best practices of corporate governance, boards of directors establish various committees for preliminary consideration of the most important issues with respect to a company's activity, which certainly then contribute to a more thorough study of the relevant issues and making more balanced decisions.

In accordance with the listing rules, the following committees are required for the inclusion in first tier:

- audit committee;
- remuneration committee;
- nominations committee (HR, appointments).²⁰

Inclusion of shares in the *second tier* requires just the presence of an audit committee.

Composition of committees

The composition of committees shall be determined in such a way that permits a comprehensive discussion of various issues with due consideration of different opinions. The key role in the work of the committees of a board of directors is given to independent directors. Committees should be formed, first and foremost, based on the professional experience, expertise and skills of the members of the board of directors, which thus enables them to make significant contributions to the work of committees.

Developing efficient procedures for boards of directors

Raising shareholders' confidence in the efficiency of boards of directors requires building efficient procedures and information disclosure.

Efficient work planning

The activities of boards of directors should be planned based on the necessity of performing key functions. In addition, a board's efforts should give due consideration to the scale of a company's activities and the tasks it needs to perform through a certain period of time. It is generally good practice to hold board meetings at least once every two months, including personal sessions in order to explore the most important issues, at least on a quarterly basis.

Efficient and transparent decision-making process

It is important for shareholders to understand how and why a board of directors reaches conclusions and makes decisions. Shareholders (primarily, minority shareholders) are interested that the opinions of all board members (including independent directors and representatives of minority shareholders) be considered during the decision-making process, as this, to a certain extent, guarantees that decisions will reflect the interests of both the company and all of its shareholders. Therefore, it is recommended that decisions be made regarding the most important matters by a qualified majority of at least three-quarters of votes of the board members. In addition, shareholders should receive, upon request, the minutes of meetings of the board of directors, which should reflect not only the decisions made, but also the course of the discussion, as well as the opinions of the board's members with respect to various agenda issues.

¹⁸ If this is impossible due to objective reasons, the majority of the committee must be made up of independent directors, and the other members of the committee shall be members of the board of directors who are not the sole executive body and/or members of the collegial executive body of the issuer.

¹⁹ If this is impossible due to objective reasons, the audit committee may include members of the board of directors who are not the sole executive body and/or members of the collegial executive body of the issuer.

²⁰ Listing rules assume that the functions of the remuneration committee and nominations committee (HR, appointments) may be carried out by a single committee.

Risk management, internal control and internal audit

A risk management system, internal control system and internal audit function are certainly important elements of corporate governance. However, issues related to these aspects are not covered by law. The Code, nevertheless, pays much attention to these matters. Furthermore, the new listing rules contain a requirement for a structural unit to perform the functions of internal audit, compliance with which is a condition for inclusion of shares among the first and second tiers.

Building effective risk management, internal control and audit functions

In recent years, especially after the financial crisis, risk management issues have attracted the attention of the investment community and have acquired a special significance for companies in the light of widespread criticism of both management and boards of directors in relation to lack of awareness of the risks undertaken by certain companies or taking excessively high risks. All of this inevitably has a negative impact on stock quotations. Furthermore, Russian companies pay the price (in the form of a discounted value of shares) owing to increased risks of corruption, which are still associated with doing business in Russia.

An efficient **system of risk management and internal control** (including a compliance system) is necessary in order to make shareholders and investors more confident in the future, as well as ensure the achievement of the goals set before a company. When developing a risk management and internal control system, companies can rely on existing concepts that have proven their efficiency in practice.²¹ The system of risk management and internal control should cover all spheres of a company's business and be integrated into all processes. Executive management is responsible for effective functioning, while the board of directors should determine the acceptable scope of risks for the company (i.e. risk appetite), core principles and approaches to organisation of the risk, and internal audit management system, as well as ensuring regular evaluation of its efficiency and reporting on the results of such evaluations as part of the company's annual reports.

So as to make a board of directors and a company's shareholders confident in the effective functioning of a company's risk management and internal control system, evaluation of its efficiency should be carried out by a party that is independent from the executive management. For this purpose, the company should form a unit to carry out the functions of **internal audit** that reports directly

to the board of directors. The relevant requirements are set in the listing rules for the inclusion of shares among the first and second tier levels. When developing an internal audit function, companies should focus on common standards that are commonly recognised in the field of internal audit.²²

Disclosure of information

Mandatory disclosure of information about the company's activity is regulated by federal laws, including:

- Federal Law No. 39-FZ "On the Securities Market" of 22 April 1996;
- Federal Law No. 208-FZ "On Joint-Stock Companies" of 26 December 1995;
- Federal Law No. 208-FZ "On Consolidated Financial Statements" of 27 July 2010;
- as well as regulations, the key of which being the regulation on disclosure of information by issuers of equity securities.²³

In addition, the Code contains a list of additional information recommended for disclosure, including that pertaining to the company, its system and performance of corporate governance, financial activities and standing, capital structure, corporate social responsibility, as well as a list of additional information recommended for inclusion in the annual report (in addition to information stipulated in current legislation).

Improvement of information disclosure standards

Current standards of information disclosure require maximum transparency on the part of a company in all matters related to its activities or anything that may somehow affect the results of its activity. It is through the disclosure of information that shareholders, investors, regulators, analysts and the public can form their impression about a company.

The issue here is not just complying with legal requirements for information disclosure in the form of quarterly reports, statements of material corporate actions, consolidated financial statements and so on. It is also important for investors that a company avoid an overly formal approach to information disclosure and apply the principle of disclosing material information about its activities, even if publication of such information is not strictly required by law.

²¹ These include: COSO Integrated concept of building a system of internal control, the Concept "Organisational risks management. Integrated model, "Treadway Commission Sponsor Organisations Committee; International Standard ISO 31000 "Risk management. Principles and Guidelines, "International Standard ISO 31010 "Risk management. Risk evaluation techniques"

²² In particular, International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors

²³ Approved by Order of the Federal Service for Financial Markets No. 11-46/pz-n of 4 October 2011

According to recommendations of the Code, as well as best practices employed by Russian and foreign companies, the main elements of information disclosure include:

- an information policy outlining the distribution of functions related to information disclosure and interaction with shareholders, investors, analysts and other stakeholders;
- a website that should be easy to navigate and contain current, complete and well-structured information (including in English);
- an annual report;
- information with respect to corporate social responsibility and sustainability within a separate report or an integrated annual report;
- regular presentations and meetings of members of the executive bodies and other key executives of the company with analysts.

Reporting on corporate governance practices

According to the Code, companies should disclose information about their corporate governance system and practices, including detailed information on actual observance of the principles and recommendations of the Code itself. A comprehensive and unbiased disclosure of information about corporate governance practice is essential for building and maintaining a sustainable and trustworthy relationship with shareholders, investors and other stakeholders (partners, customers, suppliers, the general public, market regulators and the state). Furthermore, in the long term, it contributes to the company's value enhancement and makes it easier to attract additional capital.

Material corporate actions

Material corporate actions that significantly affect or may affect a company's shareholding structure and financial standing and, subsequently, the interests of its shareholders are as follows:

- re-organisation;
- acquisition of 30 or more percent of voting shares (takeover);
- material transactions;
- increase in registered capital, division, consolidation and conversion of shares;
- listing and delisting of shares.

The law can hardly provide a complete set of mechanisms to protect shareholder rights in light of a multitude of material corporate actions. For that reason, the Code contains a number of recommended additional measures aimed at protecting the rights and legal interests of shareholders with respect to specific material corporate actions, as well as the following general recommendations:

- the board of directors should play a key role in passing resolutions and coming up with recommendations in regards to material corporate actions; for that purpose, it should actively rely on the opinions of the company's independent directors;
- the company should have in place such a procedure for taking any material corporate actions that would enable its shareholders to receive full information about such actions in due time and influence them, and that would also guarantee that shareholder rights are observed and duly protected during the implementation of such actions;
- rules and procedures with respect to material corporate actions taken by the company should be described in its internal documents;
- when disclosing information about material corporate actions, it is advisable to give explanations concerning the reasons for, conditions and consequences of such actions.





PwC Russia

About PwC

- a global organisation with offices in 157 countries;
- one of the world's leading employers of highly skilled professionals with more than 195,000 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.

At PwC, we measure success by our ability to create the value that our clients, our people and the wider investing public are looking for.

Key facts about PwC Russia

- 2,600 professionals work in PwC Russia's 10 offices. We take pride in the trust that we have earned among the shareholders and senior executives of Russia's largest public and private companies.
- 109 partners: 71 Russian and 38 foreign
- 33% of our partners are women
- more than 1,240 accountants and auditors
- more than 470 tax and legal consultants
- more than 390 consultants in the areas of investment, corporate finance and business advisory services



Oleg Malyshev

Partner, Corporate Finance Leader, PwC Russia

Russia has a long and glorious sporting tradition. But as a field of business, the Russian sports industry is still rather young, and so it presents a number of opportunities. Moreover, there is a growing desire among industry players to make their sports business operations more efficient and, of course, more profitable. PwC Russia is proud to work with local sports leagues, clubs, sponsors and other organisations to help drive the agenda of professionalisation within the world of Russian sports. As big sports fans at heart, it's really a pleasure for me and my team to put our business acumen to work in service of our true passion.

Our achievements

PwC regularly publishes research on issues relevant to the Russian and international business community:

- The annual Global CEO Survey
- Russian edition of the annual Global CEO Survey
- Cities of opportunity
- Russian Boards Survey
- Doing business and investing in the Russian Federation
- Changing the game: outlook for the global sports market to 2015
- Game on. Mega-event infrastructure opportunities
- MoneyTree™: Venture Capital Market Navigator
- A world of difference – tomorrow's power utilities industry
- Transport & logistics 2030
- Global entertainment and media outlook: 2011–2015
- Banking banana skins
- HR benchmarking survey
- The global economic crime survey
- Prospects for the Russian automotive market

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;
- by minimising our ecological footprint;
- investing in the professional growth and development of our people;
- engaging in an active dialogue with our clients with respect to corporate responsibility issues.

We support several important national projects, such as:

- St Petersburg International Economic Forum (SPIEF) – six years as Knowledge Partner™;
- Sochi 2014 Olympic and Paralympic Winter Games – Partner and Official Professional Services Provider, over 200 projects delivered for the Organizing Committee;

- Kazan 2013 Summer Universiade – Partner and Official Professional Services Provider, over 7.000 working hours devoted to helping our partners at Kazan 2013 in their planning and preparations;
- Mariinsky Easter Festival – three-year partnership;
- Making a difference – we cooperate with over 30 top universities in Russia;
- PwC Russia employees devoted over 1,500 hours of pro bono lecturing and instruction at universities across Russia;
- 28 university students were awarded PwC Russia scholarships in 2014;
- We support 15 charity organisations in Russia;
- 2,765 hours of volunteering done by PwC employees in 2014;
- 21 projects were carried out under our corporate philanthropy programme in 2014;
- PwC Russia is a partner of the Leaders in Corporate Responsibility rating, along with the *Vedomosti* business daily and the Forum of Donors organisation.

Our services

Audit and Assurance

- Financial statement audit;
- IFRS transition;
- Financial accounting;
- Corporate reporting improvement;
- Capital markets;
- Risk assurance;
- Internal audit.

Consulting

- Managing business performance;
- Strategy and operations;
- Financial effectiveness;
- IT effectiveness;
- Governance, risk and compliance;
- Change and programme management;
- Strategic cost reduction;
- Treasury.

Deals

- M&A lead advisory;
- Transaction services;
- Public-private partnership and project finance;
- Value analysis advice;
- Disposal of distressed businesses;
- Dealing with creditors;
- Debt advisory;
- Derivatives and hedging advisory;
- Portfolio advisory;
- Business plans and financial models.

PwC's Academy

- ACCA;
- CIPD qualifications.

Forensic Services

- Corporate investigations;
- Dispute analysis and litigation;
- Business intelligence;
- Forensic technology solutions.

Tax

- Tax function effectiveness;
- International tax structuring;
- Mergers and acquisitions;
- Transfer pricing;
- Indirect tax;
- Customs services;
- Tax dispute resolution;
- Individual tax planning.

Capital Markets

Legal Services

Human Resources

Private Wealth Services





Appendices

Appendix A

Figure 15 Main macroeconomic indicators for Russia in 2010 – 2014

	2010	2011	2012	2013	2014
Gross domestic product (GDP) USD billion at current market prices ²⁴	1.525	1.905	2.016	2.079	1.861
Real gross domestic product (GDP) RUB billion at constant 2008 market prices ²⁴	39762	41458	42870	43445	43723
Real gross domestic product (GDP) % y-o-y ²⁴	104.5	104.3	103.4	101.3	100.6
Fixed capital investments % y-o-y ²⁵	106.3	110.8	106.8	99.8	97.5
Consumer price index (CPI) % y-o-y ²⁵	108.8	106.1	106.6	106.5	111.4
Volume of industrial production % y-o-y ²⁵	107.3	105.0	103.4	100.4	101.7
International reserves, end of year USD billion ²⁶	479.4	498.6	537.6	509.6	385.5
Foreign direct investment (FDI) USD billion ²⁴	43.2	55.1	50.6	70.7	20.6
Foreign trade USD billion ²⁶	147	196.9	191.7	181.9	189.7
Net outflows of capital USD billion ²⁶	30.8	81.4	53.9	61.6	154.1

Source:

²⁴ Economist Intelligence Unit (EIU)

²⁵ Ministry of Economic Development of the Russian Federation

²⁶ Central Bank of the Russian Federation

Appendix B

Figure 16 Tax rates

Corporate income tax rates	<ul style="list-style-type: none"> • 20% is the standard rate (effective from 1 January 2009), regional authorities may reduce it to 15.5%; • 13% 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 a five-year holding period).
Tax depreciation rates	<p>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, as 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).</p>
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 with respect 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>A 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 without a permanent establishment in Russia). <p>Starting from 2014 certain real estate objects (including administrative, business and shopping centres) are taxed based on their cadastral value (that is close to their market value). The following maximum tax rates for real estate subject to the new rules may apply according to the Tax Code: 1.5% in 2015, and 2% in 2016 and following periods.</p>
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, etc.). <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 working as highly qualified specialists; • 15% for dividend income.
Personal allowances (and/or credits)	<p>Main exemptions:</p> <ul style="list-style-type: none"> • Charitable contributions; • Social expenses: e.g. education expenses, including those for children, medical expenses with the exception of expensive treatments (up to RUB 120,000 [approximately USD 2,400]); • Income from the sale of immovable and other property held for three years or more. Generally, five years of more for properties acquired after 1 January 2016; • Income from the sale of immovable property and land plots held for less than three years in the amount of RUB 1 million (approximately USD 20,000), 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 5,000), or documented expenses; • Income spent on the construction or purchase of premises or land acquired for the purpose of building a house (maximum RUB 2 million; approximately USD 40,000) plus related interest payments up to RUB 3 million, approximately USD 60,000. All objects should be in Russia. This deduction may be granted only once in a lifetime. The deduction can be carried forward up until 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
Estate and/or inheritance and/or gift tax rates	None (abolished as of 1 January 2007)
Capital tax	None
Indirect taxes	<p>Value added tax</p> <ul style="list-style-type: none"> • 18% standard rate; • 10% rate applicable to the sale of some types of goods (basic food products, medicines, etc.); • 0% rate for export sales, international transportation of goods and other certain transactions; • Exemption from VAT is granted for a list of specific transactions. <p>Excise tax</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 C

Figure 17 List of Double Tax Treaties effective in Russia as of 15 March 2015, indicating WHT rates as stipulated in the treaties

Recipient	Treaty benefits available from	Dividends (%)	Interest (%) (Note 1)	Royalties (%)	Construction site duration before creation of PE (months)
Albania/Russia	1 January 1998	10	10	10	12
Algeria/Russia	1 January 2009	5 (Note 2)/15	0/15	15	6 months and an aggregated period of more than three months in any 12-month period for providing services
Argentina/Russia	1 January 2013	10 (Note 60) /15	15	15	6
Armenia/Russia	1 January 1999	5 (Note 3)/10	0	0	18
Australia/Russia	1 January 2004	5 (Note 4)/15	10	10	12
Austria/Russia	1 January 2003	5 (Note 5)/15	0	0	12
Azerbaijan/Russia	1 January 1999	10	0/10	10	12
Belarus/Russia	1 January 1998	15	0/10	10	No special provisions in the relevant DTT; local tax law provisions should apply
Belgium/Russia	1 January 2001	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/Russia	1 January 1996	15	0/15	15	12
Canada/Russia	1 January 1998	10 (Note 8)/15	0/10	0 (Note 9)/10	12
Chile/Russia	1 January 2013	5 (Note 61)/10	15	5 (Note 62)/10	6
China/Russia	1 January 1998	10	0/10	10	18
Croatia/Russia	1 January 1998	5 (Note 10)/10	10	10	12
Cuba/Russia	1 January 2011	5 (Note 11)/15	10	5	12
Cyprus/Russia	1 January 2000 (12)	5 (Note 13)/10	0	0	12
Czech Republic/Russia	1 January 1998	10	0	10	12 months and an aggregated period of more than six months in any 12-month period for providing services
Denmark/Russia	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/Russia	1 January 2001	10	0/15	15	6 months and an aggregated period of more than 6 months in any 12-month period for providing services
Finland/Russia	1 January 2003	5 (Note 14)/12	0	0	12 months and an 18-month period for particular types of construction work
France/Russia	1 January 2000	5 (Note 15)/10 (Note 16)/15	0	0	12
Germany/Russia	1 January 1997	5 (Note 17)/15	0	0	12
Greece/Russia	1 January 2008	5 (Note 18)/10	7	7	9
Hungary/Russia	1 January 1998	10	0	0	12
Iceland/Russia	1 January 2004	5 (Note 19)/15	0	0	12
India/Russia	1 January 1999	10	0/10	10	12 months (may be extended upon agreement with the competent authorities)
Indonesia/Russia	1 January 2003	15	0/15	15	3
Iran/Russia	1 January 2003	5 (Note 20)/10	0 or 7.5	5	12

Recipient	Treaty benefits available from	Dividends (%)	Interest (%) (Note 1)	Royalties (%)	Construction site duration before creation of PE (months)
Ireland/Russia	1 January 1996	10	0	0	12
Israel/Russia	1 January 2001	10	0/10	10	12
Italy/Russia	1 January 1999	5 (Note 21)/10	10	0	12
Japan/USSR	1 January 1987	15	0/10	0 (Note 22)/10	12
Kazakhstan/Russia	1 January 1998	10	0/10	10	12
North Korea/Russia	1 January 2001	10	0	0	12 months and an aggregated period of more than 6 months in any 12-month period for providing services
South Korea/Russia	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/Russia	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 providing services
Kyrgyzstan/Russia	1 January 2001	10	0/10	10	12
Latvia	1 January 2013	5 (Note 58)/10	5 (Note 59)/ 10	5	
Lebanon/Russia	1 January 2001	10	0/5	5	12
Lithuania/Russia	1 January 2006	5 (Note 25)/10	0/10	5 (Note 26)/10	9
Luxembourg/Russia	1 January 1998	5 (Note 27)/15	0	0	12
Macedonia/Russia	1 January 2001	10	10	10	12
Malaysia/USSR	1 January 1989	0/15 (Note 28)	0/15	10 (Note 29)/ 15 (Note 30)	12 months and more than a six-month period for installation or assembly projects
Mali/Russia	1 January 2000	10 (Note 31)/15	0/15	0	No special provisions in the relevant DTT; local tax law provisions should apply
Malta/Russia	1 January 2015	5 (63)/10	5	5	12
Mexico/Russia	1 January 2009	10	0/10	10	6
Moldova/Russia	1 January 1998	10	0	10	12
Mongolia/Russia	1 January 1998	10	0/10	Rates in accordance with local legislation	24
Montenegro/Russia	1 January 1998	5 (Note 32)/15	10	10	18
Morocco/Russia	1 January 2000	5 (Note 33)/10	0/10	10	8
Namibia/Russia	1 January 2001	5 (Note 34)/10	0/10	5	9 months and more than a six-month period for providing services and installation projects
Netherlands/Russia	1 January 1999	5 (Note 35)/15	0	0	12
New Zealand/Russia	1 January 2004	15	10	10	12
Norway/Russia	1 January 2003	10	0/10	0	12
Philippines/Russia	1 January 1998	15	0/15	15	183 days and an aggregate period of more than 183 days in any 12-month period for providing services
Poland/Russia	1 January 1994	10	0/10	10	12 months (may be extended up to 24 months upon agreement with the competent authorities)

Recipient	Treaty benefits available from	Dividends (%)	Interest (%) (Note 1)	Royalties (%)	Construction site duration before creation of PE (months)
Portugal/Russia	1 January 2003	10 (Note 36)/15	0/10	10	12
Qatar/Russia	1 January 2001	5	0/5	0	6
Romania/Russia	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 six months in any 12-month period for providing services
Serbia/Russia	1 January 1998	5 (Note 38)/15	10	10	18
Singapore/Russia	1 January 2010	5 (Note 39)/10	0/7.5	7.5	6 months and an aggregated period of more than three months in any 12-month period for providing services
Slovakia/Russia	1 January 1998	10	0	10	12
Slovenia/Russia	1 January 1998	10	10	10	12
South Africa/Russia	1 January 2001	10 (Note 40)/15	0/10	0	12
Spain/Russia	1 January 2001	5 (Note 41)/10 (Note 42)/15	0/5	5	12
Sri Lanka/Russia	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 providing services
Sweden/Russia	1 January 1996	5 (Note 44)/15	0	0	12
Switzerland/Russia	1 January 1998	5 (Note 45)/15	0 (starting from 2013)	0	12
Syria/Russia	1 January 2004	15	0/10	4.5 (Note 48)/13.5 (Note 49)/18 (Note 50)	6
Tajikistan/Russia	1 January 2004	5 (Note 51)/10	0/10	0	24 months (may be extended upon agreement with the competent authorities)
Thailand/Russia	1 January 2010	15	0/10	15	6 months and an aggregated period of more than three months in any 12-month period for providing services
Turkey/Russia	1 January 2000	10	0/10	10	18
Turkmenistan/Russia	1 January 2000	10	5	5	12
Ukraine/Russia	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/Russia	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/Russia	1 January 1997	10 (Note 57)/15	10	15	6 months and more than a 12-month period for providing services

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

1. In most cases the 0% tax rate applies to interest payments to the governments of contracting states and to payments guaranteed by the Government.
2. If the resident of the other contracting state directly holds at least 25% of the capital of the company paying the dividends.
3. 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.
4. If the following conditions are met:
 - a. 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.
 - b. 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.
 - c. If the dividends are paid by a company that is resident in Russia, the dividends are exempt from Australian tax.
5. 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.
6. If the resident of the other contracting state directly holds at least 25% of the capital of the company paying the dividends.
7. If the beneficial owner of the dividends directly holds at least 20% of the total capital of the company paying the dividends.
8. 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.
9. 0% withholding tax is applied to the following types of royalties:
 - a. 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);
 - b. Royalties for the use of, or the right to use, computer software;
 - c. Royalties paid to an unrelated party for the use of, or the right to use, any patent or any information concerning industrial, commercial, or scientific experience.
10. 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).
11. 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.
12. 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 100,000 EUR or its equivalent in another currency).
14. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 30% of the capital in 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 in 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 Russian 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. Cinematic films or tapes for radio or television broadcasting, any copyright for 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 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 in 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 EUR 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 the capital in a company paying dividends and it contributed more than USD 75,000.
59. 5% is applicable to interbank loans only
60. If the recipient of dividends directly holds at least 25% of the capital in the company paying the dividends.
61. If the recipient of dividends directly holds at least 25% of the capital in the company paying the dividends.
62. A 5% rate in respect to intellectual property (IP) rights for the use of any industrial, commercial or scientific equipment.
63. 5% where the participation interest is at least 25% (if the owner is not a partnership) and the investment exceeds EUR 100,000 or 10% in all other cases.

Appendix D

International agreements

Russia considers Asian countries as its major partners in the current geopolitical situation. For instance, China plays a key role in Russian-Asian collaboration.

Russia and China signed about 17 agreements during the Asia-Pacific Economic Cooperation (APEC) summit in Beijing on 10-11 November 2014. Some of them include:

- Framework agreement between Gazprom and China National Petroleum Corporation (CNPC) on gas delivery from Russia to China using the Western Altai route;²⁷
- Framework agreement between Rosneft and China National Oil & Gas Exploration and Development Corporation (CNPC subsidiary) on the purchase of a 10% share stake of Vankorneft;²⁸
- Agreement between Russian state bank Vnesheconombank (VEB)'s subsidiary VEB Asia and China Finance Strategies Investment Holdings Limited (CFS) on setting up a USD 1 billion fund;²⁹
- Accord between Russia's Sberbank and Export-Import Bank of China regarding credit lines and purchasing loans;³⁰
- Agreement between Russia's power generation company TKG-2 and Huadian Corporation on energy investment projects in Russia's northern Arkhangelsk Region;³¹
- Agreement between RusHydro and Sanxia "Three Gorges" on the funding, construction and operation of hydroelectric power plants in Russia's Far East.³¹

As part of President Putin's official visit to New Delhi on 11 December 2014, the following agreements between Russia and India were signed:

- Agreement on the construction of a second line of the Kudankulam Nuclear Power Plant and building more than 20 nuclear units in India;³²
- Provision between Russia's Rosatom and the Indian Department of Atomic Energy on non-disclosure of technical data and confidential information within the framework of cooperation on peaceful uses of nuclear energy;³²

- Deal between Russia's Rosneft and India's Essar for supply of 10 million tonnes of oil a year;³³
- Memorandum of understanding between the Quality Council of India and Federal Accreditation Service of the Russian Federation on technical cooperation on accreditation;³⁴
- Protocol for consultations between the Indian Ministry of External Affairs and Ministry of Foreign Affairs of Russia for the period 2015-2016;³⁴
- Agreement for Training of Indian Armed Forces Personnel in the Military Educational Establishments of the Defence Ministry of the Russian Federation;³⁴
- Memorandum of understanding between news agencies PTI and TASS;³⁴
- Memorandum of understanding between TATA Power and Russian Direct Investment Fund (RDIF).³⁴

Turkey's BOTAS and Gazprom have signed a memorandum on the construction of a new gas pipeline running through the Black Sea with a capacity for 63 billion cubic metres a year.³⁵

Argentina and Russia have signed documents on cooperation during the official visit of Russia's President Putin to several Latin American countries:

- Intergovernmental agreement on cooperation in using of nuclear energy for peaceful purposes;³⁶
- Intergovernmental agreement on cooperation in the field of mass communications;³⁶
- Interstate treaty on mutual legal assistance on criminal cases, an interstate treaty on transfer of persons sentenced to imprisonment and an extradition treaty.³⁶

27 <http://www.gazpromexport.ru/en/strategy/markets/>

28 <http://www.rosneft.com/news/pressrelease/09112014.html>

29 <http://www.hudson.org/research/10795-ki-news-highlights-november-8-14->

30 <http://eng.kremlin.ru/news/23210>

31 <http://rt.com/business/204383-china-russia-deals-apec/>

32 <http://tass.ru/en/russia/766418>

33 <http://in.reuters.com/article/2014/12/11/russia-india-rosneft-idINKBN0JP0ZM20141211>

34 http://mea.gov.in/bilateral-documents.htm?dtl/24485/List_of_documents_signed_during_the_Official_Visit_of_President_of_Russian_Federation_to_India_December_1011_2014

35 <http://www.gazprom.com/press/news/2014/december/article208505/>

36 <http://tass.ru/en/russia/740283>

Appendix E

List of countries with which Russia has concluded free trade agreements



- Serbia
- Montenegro
- Ukraine
- Belarus
- Azerbaijan
- Armenia
- Kyrgyzstan
- Tajikistan
- Kazakhstan
- Turkmenistan
- Uzbekistan
- Moldova
- Georgia

Appendix F

Economic organisations in which Russia is a member

General

- United Nations Security Council
- G20
- Council of Europe
- Organisation for Security and Cooperation in Europe (OSCE)
- Arctic Council
- Commonwealth of Independent States (CIS)
- The Shanghai Cooperation Organisation (SCO)
- BRICS
- Eurasian Economic Union

Trade

- United Nations Conference on Trade and Development
- World Trade Organisation
- Organisation of Black Sea Economic Cooperation
- Asia-Pacific Economic Cooperation
- Customs Union (Belarus, Kazakhstan, Russia)
- General Confederation of Trade Unions

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
- European Bank for Reconstruction and Development

Other

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

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 lower house of parliament (Russian)
- www.council.gov.ru – Official site of the upper house of parliament
- www.cbr.ru – Central Bank of Russia
- www.economy.gov.ru – Ministry for Economic Development of the Russian Federation

Other

- www.waytorussia.net – Independent guide to Russia
- http://news.bbc.co.uk/2/hi/europe/country_profiles/1102275.stm – BBC country profile
- <https://www.cia.gov/library/publications/the-world-factbook/geos/rs.html>

Associations and business groups

- www.amcham.ru – The American Chamber of Commerce in Russia
- www.rbcc.com – The Russo-British Chamber of Commerce
- www.aebrus.ru – The Association of European Businesses
- www.rspp.ru – The Russian Union of Industrialists and Entrepreneurs
- www.tpprf.ru – The Russian Chamber of Commerce and Industry
- www.invest2russia.com; www.b2russia.ru – a project aimed at becoming a means of investment exchange between Russia and global investors



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