



Tax Aspects for Doing Business in Russia

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Legal Entities

- Russian legislation provides for different types of business presence of foreign companies in Russia. These are:
 - Branches and representative offices
 - Legal entities
 - Joint Activity Agreements, also known as Simple
 - Partnerships
- Representative offices of foreign entities are strictly limited to conducting only liaison and support functions. Branch offices are free to perform all of a foreign entity's activities.
- The two most common types of legal entity under Russian corporate law are joint stock companies, which may be either "open" or "closed", and limited liability companies.



Registration

- The registration procedure for legal entities comprises the following stages:
 - State and tax registration
 - Approval of the design of the company's stamp
 - Registration with the State Statistics Committee
 - Registration with the social funds
- A foreign legal entity (FLE) which conducts activity in Russia through representative offices, branches, construction sites and other places of business, for a period exceeding 30 days in a calendar year, is required to register with the Russian tax authorities within 30 days of commencing activity regardless of whether the activity is taxable or not.
- Every legal entity must register with the tax authorities in its place of location, as well as in each location in which it has a branch, a representative office, other separate subdivisions, immovable property or transport vehicles.



Corporate Tax

- The maximum profits tax rate for all taxpayers is 20%.
- Regional governments have the authority to reduce their portion of profit tax by up to 4.5%.
- FLEs are liable for profit tax on their business income only if their business activity creates a permanent establishment (PE). If no PE exists, foreign entities are exempt from Russian profit tax.
- Tax losses may be carried forward for ten years without limitations.
- **CIT returns / payment**
 - Taxpayers may choose to pay tax either on a monthly or a quarterly basis, provided it is applied consistently throughout the tax year.
 - If the monthly basis applies, the tax return must be filed and the tax paid by the 28th day of the following month.
 - If the quarterly basis applies, monthly payments are made based on one third of the previous quarter's liability, while a tax return must be filed, and the balance of taxes should be paid by the 28th day of the calendar month following the reporting quarter.
 - The annual profit tax return is due by 28 March of the following year.



Value Added Tax

- All supplies of goods, works and services on Russian territory are generally within the scope of VAT. VAT is also imposed on most imports into Russia.
- The standard VAT rate is 18%. A reduced rate of 10% VAT applies to some food, medical and children's goods.
- There is no separate VAT registration in Russia, but general tax registration includes registration for VAT purposes.
- If goods, works or services are deemed to be supplied outside the Russian Federation, they are outside the scope of Russian VAT.
- **VAT declarations / payment**
 - All taxpayers are required to file VAT returns on a quarterly basis. The deadline for filing a VAT return is 20 days from the end of the tax period.
 - VAT should generally be paid in three equal installments by the 20th day of each of the three consecutive months following the reporting quarter.
 - VAT withheld from payments to foreign legal entities for works or services rendered in Russia should be remitted to the budget at the same time as making these payments.



Withholding Tax

- Russian-sourced income of a foreign entity which is not attributable to a permanent establishment (PE) may be subject to withholding tax at source.
 - Income from international freight and rental of property involved in international shipping and income from leasing and sub-leasing sea and aircraft – 10%
 - Dividends received by foreign companies from Russian legal entities, as well as interest on state and municipal bonds – 15%
 - Royalties, interest, income from leasing and sub-leasing of property used in Russia of an FLE without a PE in Russia – 20%
- The tax must be remitted to the budget within three days of the payment date.
- Exemption of WHT can be availed after providing relevant documents to the tax authorities.



Employee Taxes & Social Security

➤ Individual Income Tax

- Determination of an individual's tax residency status is made based on whether 183 or more days have been spent in Russia in the calendar year.
- Different tax rates apply to residents and non-residents.
 - Tax residents in Russia are liable to tax on their total worldwide income received during the calendar year at a flat rate of 13% (Taxable income is defined as gross income less allowable deductions and exemptions.) and 9% for dividends and other limited categories of income.
 - A 30% rate applies to non-residents on all types of Russian-sourced income.
 - Dividends paid by Russian organizations to non-residents are taxed at a 15% rate, withheld at source.



Employee Taxes & Social Security...cont...

➤ Social Insurance Contributions

- From 1 January 2010, the Unified Social Tax which was payable at regressive tax rates has been replaced by a system of contributions, to be paid in respect of individuals engaged under employment or civil contracts, to the following four funds:
 - State Pension Fund – 20%
 - Social Insurance Fund – 2.9%
 - Federal Obligatory Medical Insurance Fund – 1.1%
 - Local Obligatory Medical Insurance Fund – 2%
- The total insurance contribution burden for employers in 2010 is 26% with a maximum liability per employee of RUB 107,900 (approximately USD 3,500). From 2011, total contributions will increase to 34%.
- Insurance contributions are payable on a monthly basis no later than the 15th day of the following month.



Currency Regulations

- The national currency of the Russian Federation (RF) is the ruble.
- While the ruble's exchange rates with foreign currencies are free-floating, it is not yet a fully convertible currency.
- Payments between residents can only be made in rubles except resident may borrow from and repay Russian banks in a foreign currency.
- Non-residents have the right to open and operate both foreign currency and ruble bank accounts in an authorized bank.
- Non-residents are permitted to make payments between themselves in a foreign currency without restriction.
- Residents and non-residents may import foreign currency into Russia without restriction.
- Severe administrative fines apply for the breach of currency control rules, ranging from 75% to 100% of the amount of the relevant operations.



Labor Code

- The standard working week in Russia is 40 hours over a five- or six-day week.
- Overtime work should not exceed four hours in two consecutive days and is limited to 120 hours per year.
- Minimum annual paid vacation is 28 calendar days.
- A written employment contract setting out the terms of employment must be concluded with every employee and drawn up in two copies, each of which is signed by both parties.
- Foreign employees must obtain a work permit and a work visa prior to starting work in Russia. The Russian Government sets a quota for the number of foreign nationals that can be hired in a given year.



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