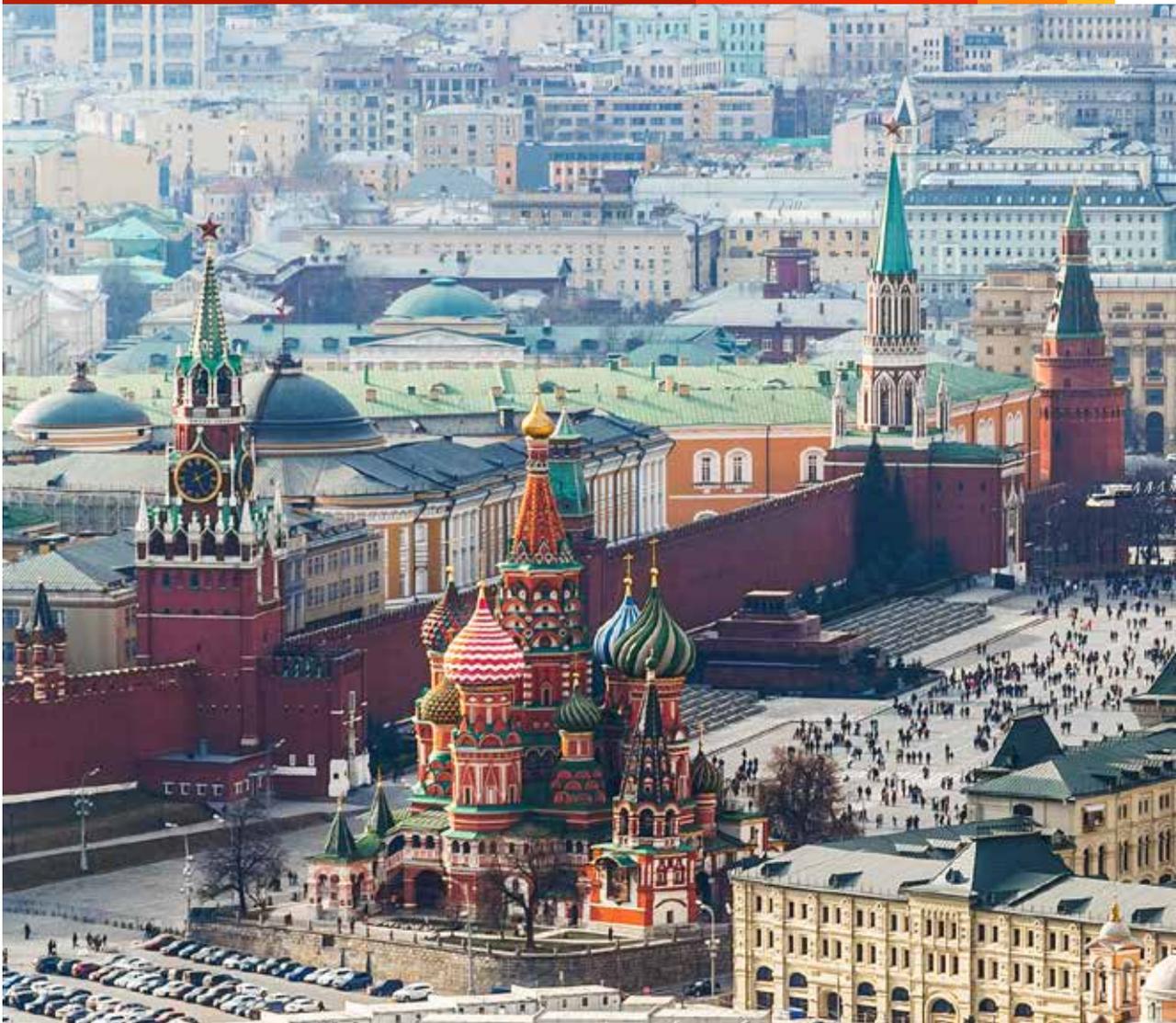


# *Doing business and investing* in the Russian Federation

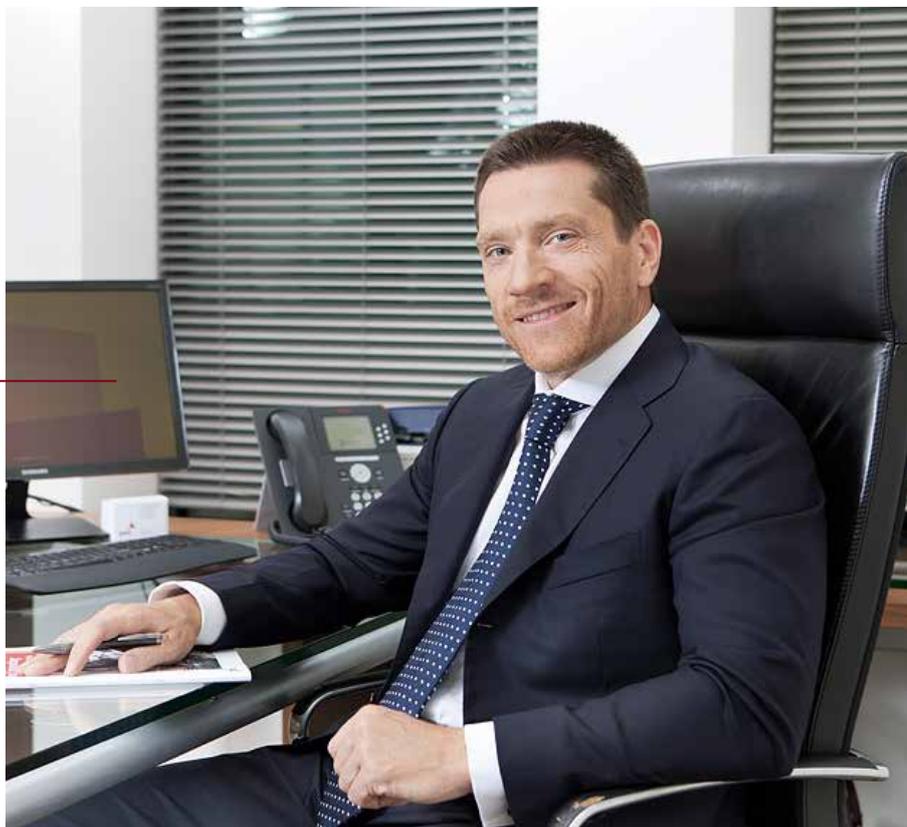
# 2017

February 2017





## *Reveal your own Russia*



In December 2016, the UK travel site Family Break Finder published a list of English-language slogans from tourism boards around the world. Although obviously not as meaningful for foreign investors as the real business environment, the slogans can be a useful tool for understanding how countries see themselves. The slogan that the researchers found for Russia does not sound terribly exciting: “Reveal your own Russia”. Nevertheless, it is to the point. Anyone who decides to start a business here will reveal their own Russia, and, no doubt, will have an unforgettable experience.

Sometimes, the challenges are considerable. Russia still has significant bureaucracy, and corruption has yet to be eradicated. Almost everybody in the government seems to realise the necessity of structural economic reforms, but progress in this direction has been rather sluggish so far. That said, Russia remains a great place to invest your time and money. I do not know the extent to which the slogan “the Dominican Republic has it all” is true, but Russia certainly does have it all. Otherwise, our firm would not have been operating here for almost 30 years, would it? We have 11 offices throughout the country and more than 2,600 employees, and we continue to expand.

I hope that you will find a lot of useful information in this brochure: Russian legislation has a tendency to change fast, and we have done our best to keep you updated on major recent developments.

In his prognosis published on the eve of 2017, Martin Wolfe of The Financial Times expressed the opinion that “a divided, inward-looking and mismanaged West is likely to become highly destabilizing.” I hope not. I would encourage you to look outward and start paying proper attention to Russia, a country with huge potential.

According to PwC’s global report The World in 2050, published in February 2017, Russia’s economy will be the largest in Europe (in terms of GDP at PPPs) and the sixth largest in the world by mid-century.

One of Russia’s ambitions is to get into the group of top 20 countries ranked on their ease of doing business by the World Bank (in October 2016, Russia was in 40th place among 190 countries). This goal will be hard to achieve, but it can be done.

“We have a vast, unique and wonderful country,” says Russian President Vladimir Putin. With confidence, I can guarantee that this is not a post-truth.

**Igor Lotakov**  
Managing Partner, PwC Russia

# Contents

<b>Office locations in Russia</b> .....	3	<b>Accounting and auditing requirements</b> .....	28
<b>Russia: country profile</b> .....	4	• Accounting	
• Introduction		• Auditing	
• Government structure		<b>Tax system and administration</b> .....	30
• People		• Significant changes	
• Economy		• Corporate taxation	
• Foreign investment in Russia		• Group taxation	
<b>Financial system</b> .....	9	• Transfer pricing	
• Currency		• Tax incentives	
• Central Bank of Russia		• Corporate income tax	
• Banking sector		• Other taxes	
• Insurance		• Tax administration	
• Capital markets		<b>Value added tax (VAT)</b> .....	40
• Anti-money laundering legislation		• Output VAT	
• Common Reporting Standard		• Withholding VAT	
<b>Importing and exporting</b> .....	12	• Input VAT recovery	
• Customs policy		• VAT compliance requirements	
• Import restrictions		• Import VAT	
• Customs duties		• Import duties	
• Temporary import relief		<b>Tax litigation</b> .....	42
• Customs duties incentives		• Tax dispute resolution at the pre-trial (administrative) stage	
• Documentation and procedures		• Tax dispute resolution in court	
• Warehousing and storage		•	
• Re-exports		<b>Corporate governance</b> .....	43
<b>Business entities</b> .....	16	• Russian regulatory environment for corporate governance	
• Legal framework		• Shareholder rights	
• Choice of entity		• Boards of directors	
• Forms of business entities		• Risks management, internal control and internal audit	
• Joint-stock companies		• Disclosure of information	
• Limited liability companies		• Material corporate actions	
• Full and limited partnerships		<b>PwC Russia</b> .....	48
• Branches		<b>Appendices</b> .....	51
• Representative office		• Appendix A – Main macroeconomic indicators for Russia in 2012 – 2016	
• Future prospects		• Appendix B – Tax rates	
<b>Labour relations and social security</b> .....	20	• Appendix C – The list of the WHT rates mentioned in treaties	
• Labour relations		• Appendix D – International agreements	
• Working conditions		• Appendix E – List of countries with which Russia has concluded free trade agreements	
• Social security		• Appendix F – Russia’s membership in international organisations	
• Foreign personnel		• Appendix G – Useful sources of information	
• Specific regulation of employment of foreign nationals and stateless persons		<b>Contacts</b> .....	60
• Concluding employment contracts			
• Amending employment contracts			
• Terminating employment contracts			
• Secondment arrangements			
• Specific types of employment			
• Trade unions			
• New sanctions for violations of labour law and health and safety requirements			



**Maxim Matsiborko**

Partner, Regional Development Leader, PwC Russia

*Russia is a very large and multifaceted country that boasts a wealth of natural resources and human capital. Each region of our vast country is unique in terms of its history, focus on specific industries, and investment appeal. We operate in many regions and see how strong regional businesses are creating new production facilities, opening up new markets, and adopting new technologies. I am confident that a well-informed, savvy investor can always find the right market niche in Russia, not to mention strong, reliable business partners.*

## Office locations in Russia

**Moscow**

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

**St Petersburg**

Bolloev Centre Office Building  
4 Grivtsova Lane  
St Petersburg 190000, Russia  
Tel.: +7 (812) 326 6969  
Fax: +7 (812) 326 6699

**Kazan**

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

**Ekaterinburg**

Summit Business Centre  
51 8th of March Street, Office 1501  
Ekaterinburg 620142, Russia  
Tel.: +7 (343) 253 1433  
Fax: +7 (343) 253 1430

**Novosibirsk**

Hilton Business Centre  
7 Kamenskaya Street  
Novosibirsk 630099, Russia  
Tel.: +7 (383) 211 9500  
Fax: +7 (383) 211 9501

**Krasnodar**

Izumrud Business Centre  
169 Yankovskogo Street, 10th Floor  
Krasnodar 350000, Russia  
Tel.: +7 (861) 210 5500  
Fax: +7 (861) 210 5544

**Rostov-on-Don**

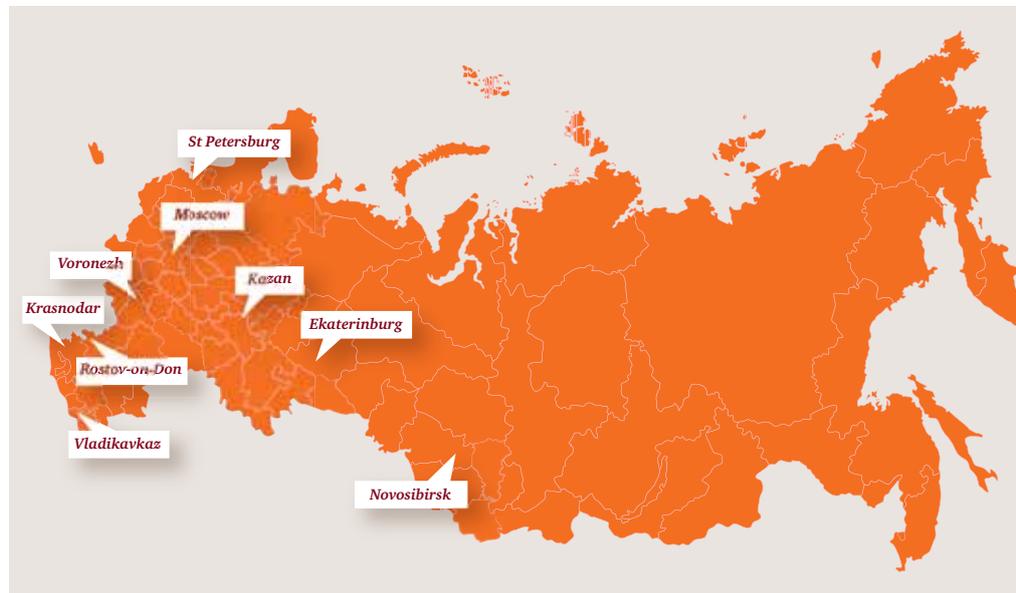
Clover House Business Centre  
139/94 Tekucheva Street  
Rostov-on-Don 344018, Russia  
Tel.: +7 (863) 204 2330  
Fax: +7 (863) 204 2331

**Voronezh**

Stolitsa Business Centre  
19B Moskovsky Prospect, 9th Floor  
Voronezh 394016, Russia  
Tel.: +7 (473) 228 1910  
Fax: +7 (473) 228 1911

**Vladikavkaz**

1 Gappo Baeva Street  
Vladikavkaz, Republic of North  
Ossetia-Alania, 362040, Russia  
Tel.: +7 (863) 204 2330  
Fax: +7 (863) 204 2331





# Russia: country profile

## Introduction

### Geography

- At **17 million km<sup>2</sup>**<sup>1</sup> in land area, Russia is the largest country in the world.
- The Russian Federation is composed of **eight federal districts**<sup>2</sup> under the administration of presidential envoys.
- There are **15 cities with a population of over one million**:<sup>1</sup> Moscow (the capital), St Petersburg, Novosibirsk, Ekaterinburg, Nizhny Novgorod, Kazan, Chelyabinsk, Omsk, Samara, Rostov-on-Don, Ufa, Krasnoyarsk, Perm, Voronezh and Volgograd.



## Government structure

The Constitution, adopted in 1993, states that the Russian Federation is a democratic federal republic.

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

The legislative branch is the 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 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 encompasses 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.

## People

### Population

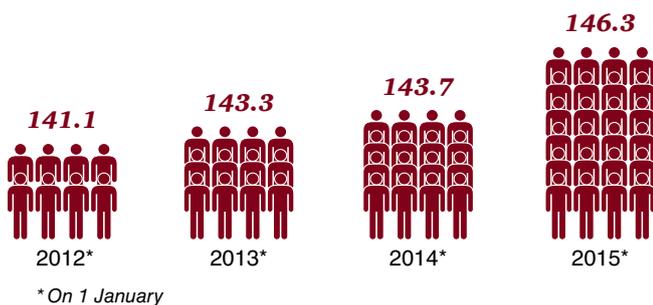
- Russia is the world's ninth most populous country with 146.5 million people as of November 2016. This figure includes the Crimean population of 2.3 million because the Russian government considers Crimea to be a part of Russian territory. The population has been rising slowly since 2009.<sup>1</sup>
- The population was 46% male and 54% female as of November 2016.<sup>1</sup>
- Russia's economically active population as of December 2016 was 76.9 million people.<sup>1</sup>
- Russia's unemployment rate was 5.6% in 2015 and 5.3% in December 2016.<sup>1</sup>
- The Russian Federal State Statistics Service states that, as of November 2016, 57.5% of the population are of working age, while 24.6% are above it and 18.0% are below it.<sup>2</sup>

According to the Russian Federal State Statistics Service, in 2015-2016 there were 896 institutions of higher education, in which 4.8 million students are currently enrolled.

The Russian educational system is currently undergoing a reform programme, which is expected to be completed in 2020.

Russia ranks 28th out of 130 countries in the World Economic Forum's Human Capital Report for 2016, which measures the ability of surveyed countries to nurture talent through education, skills development and deployment at all stages of the human lifecycle.<sup>4</sup>

**Figure 1 Total population, mln people**



### Language

Russian is the official language. It is the most widely spoken Slavic language in the world 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

The Russian educational system consists of several levels:

- Primary and secondary education (free for all citizens of Russia)
- Higher education: both free and fee-based (under Russian law, each university must admit a certain percentage of students on a tuition-free basis)

Primary and secondary education in Russia is compulsory. Children receive either a nine-year basic or eleven-year comprehensive education.

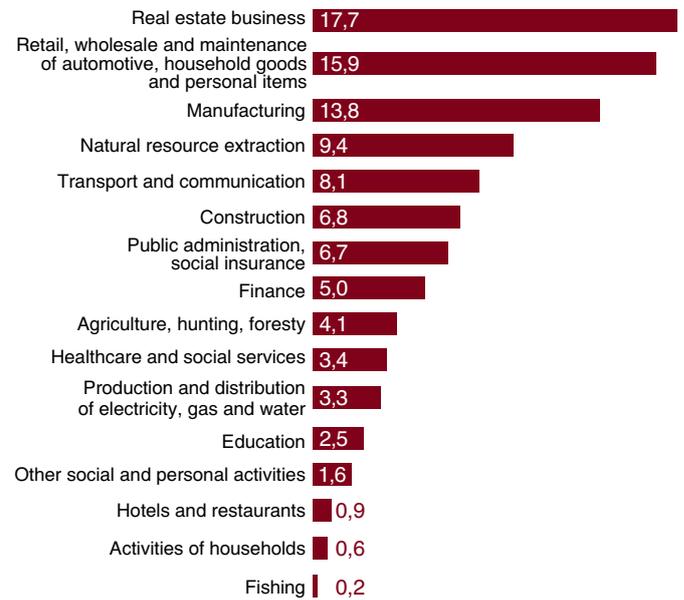


## Economy

### Key points and major economic indicators

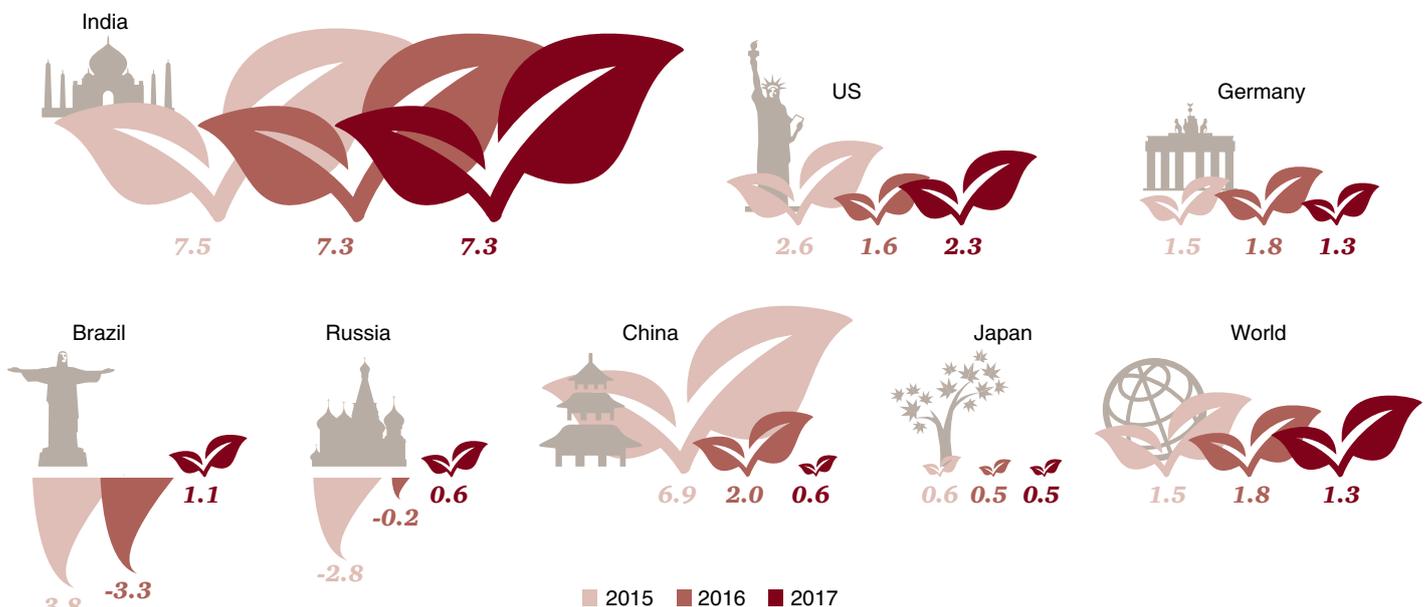
- Low oil prices and Western sanctions have led to an economic decline in Russia. In 2015 GDP decreased to -2.8%. However, in 2016 a relatively more positive GDP trend was observed, -0.2%. In 2017, an even better economic outlook is expected, featuring 0.6% growth in a basic scenario of the MED.
- For many years, oil prices have been a key driver of the Russian economy, which explains why the oil price decline had a significant impact on the Russian economy in 2014-2015. Since mid-2014 oil prices have dropped significantly. Against a macroeconomic background of low commodity prices, the Russian government has been making a concerted effort to shift the economy away from an overly resource-based orientation toward a more innovation-driven model.
- The inflation rate was 12.9% in 2015, 1.5% above the level recorded in 2014 (11.4%)<sup>6</sup>. In 2016, the inflation rate reached 5.4%, or roughly half the 2015 level. According to the MED's forecast, in 2017-2019 the inflation rate will be at the level of 4%, or even lower than the pre-crisis level of 6.5% in 2013.
- Although real disposal income has fallen by 5.9% during the recent crisis, the MED has forecasted growth in both real disposal income and retail turnover over the short term.
- Although real estate and retail have been the hardest hit sectors in the current downturn, in 2016 they enjoyed the largest shares of gross value added (GVA) broken down by sector with 17.7% and 15.9%, respectively (Figure 3).

Figure 3 Gross value added (GVA) broken down by sector (2016), %



- Even as Russia's investment climate remains under the pressure of a negative macroeconomic environment, the Russian economy has strengthened its position in leading international ratings. According to the World Bank Group's Doing Business-2017 rating, Russia ranks in 40th place, having climbed up from 120th place in five years' time (Figure 4). Since 2004, Russia has carried out over 30 reforms in various areas. In 2015 it ranked among the top five countries by number of reforms, which were carried out in five out of 10 key areas surveyed: obtaining construction permits, accessing electricity, registering property, enforcing contracts, and protecting minority investors. In 2016, cross-border trade has become easier and more efficient in Russia.

Figure 2 Growth of real GDP, %<sup>5</sup>



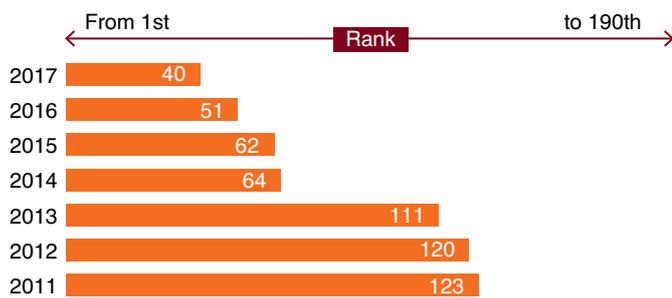


**Maxim Timchenko**

Partner, Russia and CEE Oil & Gas Practice Leader, PwC Russia

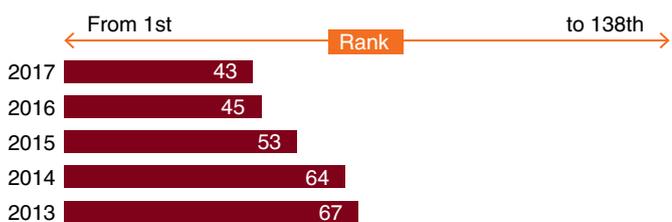
*Despite the sharp decline in global oil prices in recent years, the Russian oil and gas sector has demonstrated an ability to sustain external shocks and adjust to new market realities. It continues to be an attractive area for investment with significant unleashed potential, especially in the field of technology and digitalisation. Digitally enabled technologies are expected to significantly reduce the cost per barrel of future hydrocarbon production. And, the gains from integrating technology with services are bringing down walls in the oilfield services sector.*

**Figure 4 How Russia ranks in Doing Business**



According to the World Economic Forum’s *Global Competitiveness Report 2016-2017*, Russia’s relative performance over five years has brought it up twenty four positions in the rating, where it now ranks 43rd (Figure 5).

**Figure 5 Russia’s performance in the Global Competitiveness Report**



**Foreign investment in Russia**

Falling oil prices, further rouble depreciation, and ongoing international sanctions (which have resulted in limited access to foreign financing) have all had an impact on the declining volume of foreign direct investment (FDI) in Russia. In 2015 the volume of FDI decreased by 70.6% (from USD 22 billion in 2014 to USD 6.47 billion) <sup>6</sup>. However, the weak rouble has had a positive effect on the dynamics of certain export-oriented industries, as evidenced by a substantial inflow of FDI to these sectors (16.3% of total FDI). Overall, such sectors as retail and manufacturing have attracted the largest volume of FDI (52% of the total).

Many assets continue to be undervalued, giving rise to optimism about the prospects for further investment growth when the Russian economy inevitably recovers. In this context, it’s important to note that the volume of FDI for 1H 2016 was 10% higher than for full-year 2015 at USD 7.11 billion versus USD 6.47 billion, respectively.

One of Russia’s largest recent investment deals has helped bolster the positive sentiment among foreign investors about Russia’s prospects for economic recovery. In early January 2017, Russian oil company Rosneft sold a 19.5% equity stake to a consortium consisting of Anglo-Swiss commodities trader Glencore and the Qatar Sovereign Wealth Fund. The sale price reached EUR 10.2 billion (or USD 11 billion). Indeed, the volume of this deal alone exceeds the entire FDI volume for all of 2015.

In 2016, a number of large international companies announced further growth plans in Russia. Moreover, such new investment projects are seen as part of long-term corporate development strategies for the Russian market.



**Jason Wardell**

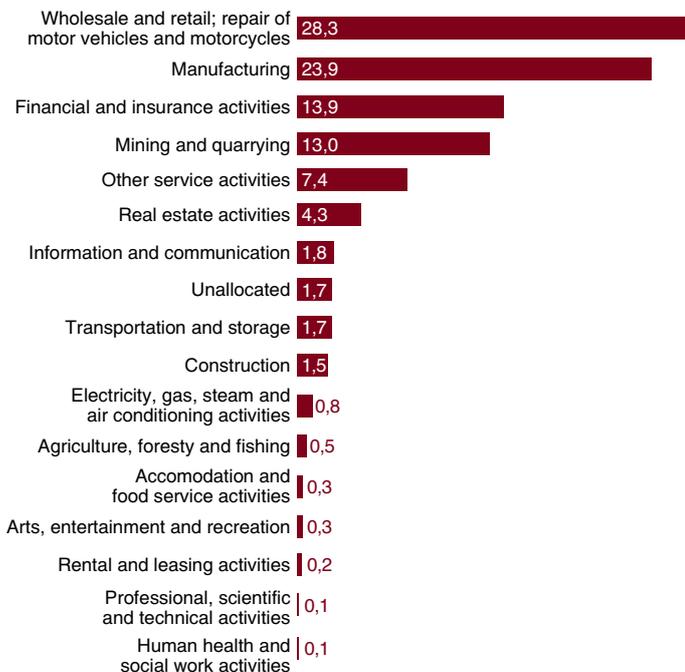
Partner, Assurance Services Leader, PwC Russia

*Recent economic woes notwithstanding, Russia remains a compelling investment case in the long term. And, with most economic forecasts calling for a return to growth in the Russian economy, now is the time to look for investment opportunities. As a result of the recent recession, certain structural changes in the economy and consumer behaviour have opened up greater opportunities in domestic manufacturing. This is particularly true as regards substitution of imported goods and in the retail sector overall. In fact, we're already seeing signs of increased investment in both of these areas.*

Among the most prominent investment projects are:

- In 2016, China Machinery Engineering Corporation (CMEC) and China National Electric Equipment Corporation (CNEEC) announced investments in building a mining complex in the Irkutsk Region.

**Figure 6 FDI flows into Russia by sector in 2015, % of total <sup>6</sup>**



- In October 2016, Finnish company Valio launched new production lines as it continues to localise its production within Russia driven by the Russian government's imposition of counter-sanctions on food products in mid-2014. Meanwhile, Germany-based Schneider Electric is expanding its manufacturing of technical products in Russia. By the end of 2016, French company Saint-Gobain had successfully localised more than 90% of its production.
- In 2016, Austria-based Kronospan announced plans to invest EUR 600 million in the construction of new factories in the Kaliningrad and Kaluga regions and the Republic of Bashkortostan. It plans to export these factories' output to third countries as well.
- Mercedes-Benz renewed negotiations with the Russian government for the development of car manufacturing in Russia.

The EIU states that inward direct investment into Russia equalled about 0.5% of GDP in 2015; it forecasts slight growth in 2016 and 2017 of 0.7% and 0.8%, respectively <sup>5</sup>.

**Figure 7 Inward direct investment, Russia (% of GDP) <sup>5</sup>**



**Sources:**

- 1 Russian Federal State Statistics Service
- 2 Russian Federation Code
- 3 QS World University Rankings

- 4 The Human Capital Report 2016
- 5 Economist Intelligence Unit, November 2016
- 6 Central Bank of the Russian Federation



# Financial system

## Currency

Under Russian currency control legislation, currency transactions between residents (subject to certain exceptions set under Article 9 of the Federal law No. 173-FZ "On currency regulation and currency control" dated 10 December 2003) are prohibited. Thus, settlements between Russian residents are generally carried out exclusively 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 carrying out currency transactions, residents must comply with the requirements set under Russian currency control legislation.

For instance, Russia's currency control legislation establishes certain rules with respect to using foreign bank accounts (including specific regime of a foreign bank account usage by residents) as well as repatriation and reporting requirements, for residents when carrying out settlements with non-residents under foreign trade contracts.

The Federal Service for Financial and Budgetary Supervision (Rosfinnadzor) was the federal executive body responsible for currency control since 2004. However, in February 2016 the Decree of the President of the Russian Federation on abolition of the Rosfinnadzor was signed and afterwards its regulatory functions were transferred to the Federal Tax Service and the Federal Customs Service.

Importantly in 2016 it has seen a considerable number of amendments to Russian currency control legislation, with several relevant bills currently under consideration.

In 2016 there have been significant fluctuations in the official Central Bank of Russia (CBR) exchange rates for the Russian rouble (RUB) to the US dollar (USD) and the euro (EUR). The official exchange rates can be tracked on the CBR's official website.<sup>7</sup> It is the CBR's sole prerogative to set exchange rates. Exchange rate fluctuations are not regulated by Russian law and are driven exclusively by economic and political factors.

<sup>7</sup> [http://www.cbr.ru/currency\\_base/daily.aspx](http://www.cbr.ru/currency_base/daily.aspx)



### **Natalia Mileschkina**

Partner, Financial Services Practice Leader, PwC Russia

*At the global level, ever greater attention is being paid to the implementation of new technologies in various sectors of the economy. And, the Russian financial sector has been no exception as regards the development of FinTech. By adapting to the new high-tech environment at an accelerated pace, market players can ensure the achievement of positive results over the long term. As well, accelerated adopters will enjoy greater cost savings and expanded access to high-tech services, all of which will, in turn, help attract new foreign investors to Russia's financial markets.*

## Central Bank of Russia (CBR)

The Central Bank of Russia (CBR), formally known as the Central Bank of the Russian Federation or Bank of Russia, is the government body with the exclusive prerogative to issue Russia's national currency, the rouble. It is legally obligated to protect the rouble and ensure its stability.

### **The CBR's main functions are <sup>8</sup>:**

- 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;
- regulating the national payment system;
- managing government budget accounts and the CBR's international reserves;
- supervising and registering financial organisations (non-state pension funds, credit institutions, insurance companies, etc.).

## Banking sector

According to the CBR, during the first nine months of 2016 the Russian banking sector posted considerable earnings amounting to RUB 714 billion, representing a four-fold year-on-year increase <sup>9</sup>.

The overall growth trend in individual bank deposits has remained steady. In the first ten months of the year, deposits increased by 0.7%.

As of October 2016, Russia's banking sector demonstrated both an increase in the number of loans and improved loan quality.

As of 1 November 2016, 643 credit organisations were operating in Russia (which includes 594 banks and 49 non-banking credit organisations) compared to 834 active credit organisations as of 1 January 2015. In terms of assets, the country's largest banks are Sberbank, VTB, Gazprombank and Russian Agricultural Bank.<sup>10</sup>

## Insurance

As of October 2016, 388 subjects of insurance activities, 263 registered insurance companies and 12 mutual insurance societies <sup>11</sup> were active in Russia.

According to the CBR <sup>12</sup>, the second quarter of 2016 saw the first growth in demand for insurance services during the past year. Also in 2Q 2016, the number of insurance contracts grew by 8.5% year on year, mostly due to property insurance. In contrast, 1Q 2016 saw a contraction of 4.9%, whereas the decline in the same period a year earlier was fully 9.4%.

<sup>8</sup> <http://www.cbr.ru/today/?PrId=bankstatus>

<sup>9</sup> <http://www.cbr.ru/Press/?PrId=event&id=731&PrintVersion=Y>

<sup>10</sup> [http://www.cbr.ru/analytics/bank\\_system/svst01012016.pdf](http://www.cbr.ru/analytics/bank_system/svst01012016.pdf)

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

<sup>12</sup> [http://www.cbr.ru/finmarkets/files/supervision/review\\_insure\\_070916.pdf](http://www.cbr.ru/finmarkets/files/supervision/review_insure_070916.pdf)

Importantly, growth has been driven mainly by private consumer demand, with the number of individual insurance policies taken out increasing by 9.2% year on year, whereas the number of insurance policies issued to legal entities and sole proprietors declined by 19.7%.

Life insurance and compulsory motor third-party liability (CMTPL) insurance (commonly known by the Russian acronym OSAGO) still remain the key market drivers.

Life insurance demonstrated the highest level of annual growth in premiums (58.1% as of 2Q 2016) with the total amount of premiums collected equalling RUB 47.4 billion.

In general, all major segments of the Russian insurance market showed a positive trend in the collection of premiums during 2Q 2016. However, the market for comprehensive coverage auto insurance (commonly known by the Russian acronym CASCO) is in recession due to decreased demand for new cars as well as the general population's shrinking income and creditworthiness. The amount of premiums collected in the reported period amounted to RUB 43.2 billion, representing an 8.4% year-on-year decline versus the corresponding quarter in the previous year.

## Capital markets

Russian companies are generally permitted to issue shares and bonds and offer them for sale in public placements.

Moscow Exchange (MOEX) dominates the Russian securities market. It was created from the merger between the Moscow Interbank Currency Exchange (MICEX) and the Russian Trading System (RTS), which was completed in December 2011. MOEX provides a universal platform for both domestic Russian and international investors to trade in equities, bonds, derivatives and currencies.

Following the MICEX-RTS merger, the newly consolidated Moscow Exchange held an IPO in February 2013.<sup>13</sup>

## Anti-money laundering (AML) legislation

The Russian Federation has taken a number of measures since 2001 to bring its anti-money laundering (AML) legislation in line with international standards, together with organisational and administrative measures for enforcing AML 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 Terrorist Financing (EAG), established in 2004 to bring together several CIS countries, China and India.

## Common Reporting Standard (CRS)

In May 2016, Russia signed the Organisation for Economic Co-operation and Development's Multilateral Competent Authority Agreement (MCAA) for the OECD's Common Reporting Standard (CRS). It is expected that the automatic exchange of information under the CRS will be carried out in electronic form; for Russia it will commence from 2018 for data covering 2017.

Thus, in line with Russia's commitment to exchange information under the CRS, it will enter into exchange relationships with foreign jurisdictions based on the MCAA and other arrangements, such as bilateral agreements.

Toward this end, Russia will need to amend its current legislation to ensure the proper functioning of the automatic exchange mechanism as well as draft bylaws governing the information gathering process.



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



# Importing and exporting

## **Tips for foreign exporters into Russia**

- If goods are imported into Russia under a transaction between a foreign company and a Russian company, the Russian party is usually responsible for 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 stipulated by Russian customs legislation (e.g. certification requirements).
- Importing certain types of goods (e.g. high-frequency and encryption equipment, etc.) requires special permits and licenses.
- Russia has several special economic zones (SEZ) that offer customs benefits.
- Russia is a member of the Customs Union with Belarus, Armenia, Kazakhstan and Kyrgyzstan. As a result, the movement of goods within these countries generally does not require customs clearance and payment of duties.

## Customs policy

Russia's customs policy has recently seen several developments:

- Expanding regional integration in Eurasia: The original Belarus-Russia-Kazakhstan Customs Union, founded in 2010, has since evolved into the Eurasian Economic Union (EAEU). Armenia and Kyrgyzstan joined the EAEU in 2015. The EAEU Agreement introduced the basic principles of the economic union's legislative framework. In particular, it provides that the member states will continue further economic integration and harmonisation of their domestic legislation.
- The final draft of the EAEU Customs Code has been submitted for final approval by the EAEU member states. It has been announced that the Code will most likely come into force in July 2017. The provisions of the new code may change the customs environment in the EAEU.
- Russia has been pursuing a policy of stimulating import substitution and encouraging localisation to boost the activities of domestic manufacturers.
- Customs clearance procedures have been simplified.

- Tighter customs controls have been instituted over customs value during customs clearance of goods as well as after goods are released into free circulation (including customs control of goods acquired by end customers in the Russian market).
- As part of Russia's accession to the World Trade Organisation (WTO) in 2012, there has been further reduction of import and export customs duty rates as well as a reduction of trade barriers for goods and services.
- Administrative liability for violation of customs rules has been eased somewhat.

## Import restrictions

### **Technical measures**

Imports of certain goods into Russia require permits, certification (e.g. of conformity to standards and sanitary norms), licences and other types of authorisation, for which applications must be filed with the customs authorities during customs clearance.

Further development of technical regulations (conformity assessment requirements): a number of new technical regulations have already been approved and are to be implemented in 2017.

### **Contingent trade-protective measures**

Russia imposes anti-dumping duties on certain goods (e.g. light commercial vehicles originating in Germany, Italy and Turkey, as well as steel flatware originating in China).

Certain measures have expired (e.g. safeguard measures on combine harvesters, special [safeguard] duty on certain goods, e.g. tableware and kitchenware made of porcelain).

### **Recent restrictions**

Russia has banned the importation of certain food and agricultural products originating from those countries (the United States, EU member countries, and some other countries) that have imposed economic sanctions on a number of Russian legal entities and individuals.

Some countries (the United States, EU member countries) have imposed economic restrictions on Russia pertaining to specific financial and production-focused institutions, and 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 recognized Harmonized Commodity Description and Coding System (HS). In line with recent changes in the HS, the EAEU's tariff classification system will be amended, effective from 1 January 2017.

### **Valuation rules**

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

New rules have been introduced for applying the delayed customs valuation procedure.

### **Rates**

Import duties apply to 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. The average duty rate is 8.3%. The range of rates for the majority of goods is between 0% and 10% of the customs value of the goods. Regular rates established by the EAEU Common Customs Tariff are applicable to imported goods originating from 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 from "developing" and "least developed" countries may be imported at 75% of the regular rates or 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 concluded free trade agreements with countries of the Commonwealth of Independent States (CIS), as well as several other countries (Serbia and Montenegro). Goods originating in these countries are exempt from customs duty for import into Russia (subject to certain conditions). Furthermore, Armenia, Russia, Belarus, Kazakhstan and Kyrgyzstan share a common customs territory, and goods moving within and between these countries are generally not subject to customs clearance.

A free trade agreement between the EAEU and Vietnam took effect on 5 October 2016. Reduced or zero customs duty rates may be applied in respect of approximately 90% of goods under this FTA.

Additionally, the EAEU has initiated negotiations for free trade agreements with India, Egypt, Iran and Israel. It has also commissioned a feasibility study for a free trade agreement with Singapore and a free trade agreement with South Korea is also being discussed at the EAEU level.

### **Excise tax**

Certain categories of goods are subject to excise tax for import into 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 the customs value, inclusive of customs duty and excise tax, if any. Food, certain types of children's goods and a limited selection of other goods may be subject to 10% VAT or be exempted from VAT.

### **Customs processing fees**

Customs processing fees are charged as a flat fee and vary from around EUR 6 to EUR 430 per customs declaration, depending on the customs value of a given shipment.

### **Payments**

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

### **Environmental fees**

Environmental fees have been introduced in Russia for a number of goods (packaging, batteries, rubber products). The first payments will fall due in April 2017.

## **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 authorisation from 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 such payments.

Goods qualifying as fixed assets for production purposes may be admitted and subject to a 3% monthly customs payment for a temporary importation 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 that have obtained a temporary importation permit from the customs office. 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 established timeframe for charter capital formation. The customs authorities may require a security on customs payments upon the importation of goods with duty exemption.

The customs authorities can check to ensure the proper use and further disposal of goods exempted from customs duty.

### **VAT exemption**

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

### **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 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 or finished goods are subsequently moved out of Russia within a timeframe approved by the customs authorities. An export customs duty is not charged on exporting finished goods out of Russia.

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

### **Special economic zones**

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

## 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 office prior to importation (charter documents, tax registration certificates, etc.).

### **Documentation**

The 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 imported/exported goods, the terms 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 appropriate documentation. The list of documents may vary depending on the terms of the given transaction. While EAEU regulations provide a general list of documents required to confirm the declared customs value, the list is not exhaustive.

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

## 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 export customs duty.





# Business entities

## Legal framework

### ***The Russian Civil Code***

Chapter 4 of the Russian Civil Code (RCC) covers, inter alia, business organisations and their organisational foundations. It establishes the requirements for the constituent documents, name, location, governance, and state registration of legal entities. It also defines branches and representative offices and governs the corporate reorganisation and liquidation processes. Effective 1 September 2014, major amendments were introduced in the RCC with respect to those provisions regulating the establishment and activity of Russian legal entities. Among other things, these amendments cover the legal status of entities, the rights and obligations of their shareholders, requirements for their management structure, and other matters. A significant number of amendments have also been introduced in the RCC since 1 September 2014; however, most of these amendments do not concern the establishment of legal entities and their initial operations.

Joint stock companies and limited liability companies are governed by separate federal laws.<sup>14</sup>

## 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 legal entities are strictly limited to carrying out liaison and support functions. Branch offices are free to carry out all aspects of a foreign legal entity's activities. Many investors opt for branch offices at the outset because such entities can engage in any kind of commercial activity, are easier to establish and have less onerous reporting requirements than those in place for Russian companies. At the same time, however, for many investments, including joint ventures and production facilities, a Russian legal entity may prove to be better suited to an investor's needs, especially in view of issues concerning licensing, customs and privatisation of state property.

<sup>14</sup> 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"

## Yana Zoloeva

Managing Partner, PwC Legal CEE

*About 80% of Russian companies believe that increased regulatory complexity poses the greatest risk to business performance, and 90% of the leading companies coordinate their risk management programmes with their legal departments. One of the key tasks Russian companies face is to assess and minimise their legal and reputational risks. In this context, companies have begun to focus more attention on legal and compliance risk management as well as on establishing effective legal and compliance departments.*



## Forms of business entities

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

- full partnerships;
- limited partnerships (European-style kommandit partnerships);
- peasant farms;
- limited liability companies;
- joint stock companies (public and non-public);
- production cooperatives; and
- unitary enterprises (state-owned legal entities not open to foreign investors).

Of the types of entities enumerated 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 RCC, 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 corporate 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 shares, which are deemed as securities and subject to registration. The law differentiates between public and non-public joint stock companies. Although the former are entitled to have their shares publicly traded, they must comply with rather strict legislative requirements concerning the structure of their governing bodies, relationships between shareholders, and obligatory reporting, among other things. The latter companies, however, cannot place their shares for public trading, but enjoy more regulatory flexibility with respect to their corporate structure and operations.

A company may be created as a new entity or by reorganising an existing legal entity (via a consolidation, merger, division, spin-off or change in legal form, as well as a combination thereof). A company is considered to have been 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 amounts for public and non-public joint stock companies are RUB 100,000 and RUB 10,000, respectively.

A joint stock company's ultimate management body is the general meeting (GM) 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 a "one-person" body (director, general director). It is also possible to have several "one-person" executive bodies in a joint stock company, which 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 GM.

A joint stock company may be liquidated voluntarily or by court order in accordance with the procedure or on the grounds established by the RCC.

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

## Limited liability companies

***Under the RCC, a limited liability company (LLC) is established by one or several persons. LLC's 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 an LLC cannot exceed 50.

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

An LLC's management structure is similar to that of a joint stock company. LLCs 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 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

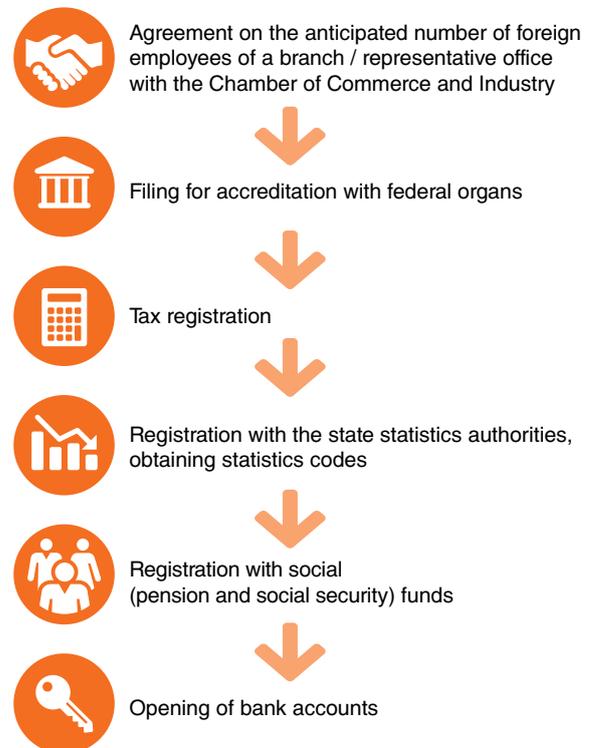
another partnership, and their liability is the same as for full partners as described above.

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 there are special rules governing their tax treatment.

## 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 in the Russian laws regulating the establishment of branches and representative offices in the country. Under the current rules, the following steps should be taken to establish a branch or representative office (see Figure 8).

**Figure 8** These steps should be taken in order to establish a branch or representative office



At the moment, most branches or representative offices should be accredited with the tax authorities except for the branches or representative offices of banks and



### **Mikhail Magrilov**

Partner, Advisory Services Practice Leader, PwC Russia

*Russia is following along the trail blazed by the world's strongest economies. Moreover, in certain niches it is outperforming them, a trend that will only accelerate as the country rapidly finds its place in the global economy. However, at the same time, Russia continues to lag somewhat behind the leading Western economies in several critical areas. These include digitalisation, data analytics-based business optimisation supported by M2M, platform-based decentralised C2C, and B2B business solutions, as well as platform-based business in general. But, that said, Russia's large economy is working at catching up by carefully replicating the trail blazed by its Western peers with a three- to five-year lag time. This creates massive opportunities for investors on an ongoing basis.*

aerospace sector enterprises, which should be accredited with the Central Bank of Russia (CBR) or the Ministry of Transportation, respectively. Also, the new rules do not clearly regulate the accreditation of branches or representative offices of foreign media outlets, which, as per the previous statutory requirements, should be accredited by the Ministry of Foreign Affairs. Accreditation is mandatory since Russian authorities and local banks may not recognise a branch or representative office without it.

Although investors sometimes confuse the concept of a branch and an accredited representative office, 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 licenses to conduct regulated activities, a representative office or unregistered branch may not.

The state duty for branch accreditation is currently RUB 120,000 (approximately USD 1,800). In addition, the Chamber of Commerce and Industry may charge a certain insignificant fee for a review of the documents required 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 actually do business through their representative offices. 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.

## **Future prospects**

Russia's recent reform of civil law provisions governing the establishment and operation of new legal entities now appears to be complete. Moreover, we are not aware of any significant legislative initiatives that might affect the process of establishing new businesses in Russia. That said, however, investors are advised to continuously monitor Russian legislative developments given the experience of recent years, which has demonstrated how rapidly Russian company law can change.



# *Labour relations and social security*

In the Russian Federation, the rules established by labour law apply to labour relations involving foreign nationals and stateless persons, and organisations established by them or with their participation, as well as employees of international organisations and foreign legal entities (including 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.

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

## **Labour relations**

### ***The Russian Labour Code***

The Russian Labour Code (RLC), the current version of which came into force on 1 February 2002, and other special laws govern employer-employee relations. Before 2016, the RLC had been amended significantly, both to correct textual ambiguities and introduce several fundamental changes.

In 2013, the RLC was supplemented with a special chapter on the employment of remote employees who perform their duties outside of the employer's office and deliver their work through the Internet. In addition, in 2014 the RLC was supplemented with a chapter on the specific regulation of work performed by foreign nationals or stateless persons, and in 2016 the RLC rules governing salary payment terms were also modified.

The RLC 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 or policies. Any provision in an employment contract or internal policy that contravenes these guarantees is unlawful.

Safeguards are in place to protect employees from dismissal at the employer's initiative (prior notice, severance allowances), as well as harmful working conditions and excessive working hours. Furthermore, Russian labour law makes it very difficult for an 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 and no later than 15 calendar days after the period for which the salary amount was accrued. Salaries should not be less than the minimum monthly salary as established by Russian law. The minimum wage is adjusted regularly.

As of 1 July 2016, the statutory minimum monthly wage (including for foreign nationals) was RUB 7,500 per month (approximately USD 123). Individual Russian Federation constituent regions may set their own minimum wage at a higher level. For example, the City of Moscow's minimum wage is periodically set by a relevant regional agreement and since 1 October 2016 has been RUB 17,561 per month (approximately USD 288).

### **Employment contracts**

A written employment contract with terms of employment must be concluded with every employee in Russian. It may be accompanied by a translation into another language; however, the Russian version would prevail in case of any disputes. The RLC establishes mandatory requirements for the content of employment contracts.

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

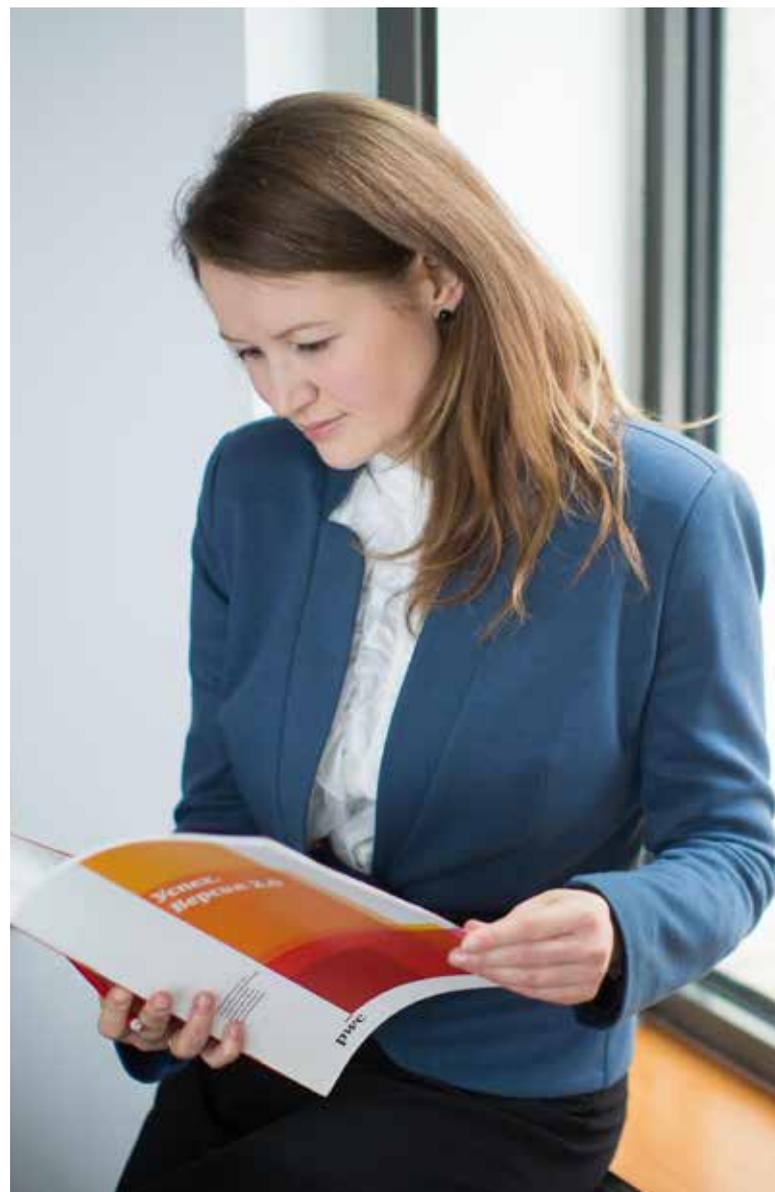
- place of employment;
- job function;
- employment commencement date;
- salary payment terms and conditions;
- work hours and vacation entitlement; etc.

A formal job description outlining the employee's job duties should be included either in the employment contract or in a separate document. Employees cannot subsequently be required to perform tasks outside of the scope of duties established in their job descriptions unless they give their consent. Employers are advised to draft an employee's job description as a separate document (not as an appendix to the employment contract) as this would make it easier to amend it if necessary.

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

### **Working hours**

- Employers are required to keep a record of all time worked by each employee, including overtime.
- The standard work 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 aged 16 to 18, disabled employees, etc.).
- The law strictly defines the minimum payment for overtime and holiday or 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; affiliations 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.

**Social security****Coverage**

Social and health security covers, in particular, pension, unemployment, maternity and child benefits, as well as illness and other social services.

**Employee contributions**

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

**Employer contributions**

In 2017 employers must make the following contributions on behalf of employees:

- **Obligatory social insurance contributions (OSIC).** Such contributions are payable on top of employees' remuneration to the following funds:
  - Pension Fund – 22% up to RUB 876,000 + 10% on the excess;
  - Federal Obligatory Medical Insurance Fund – 5.1% of employees' remuneration;
  - Social Insurance Fund – 2.9% within the cap of RUB 755,000.
- **Obligatory accident insurance contributions (OAIC).** Such contributions are made against work-related accidents. Rates vary between 0.2% and 8.5% and depend on the level of professional risk associated with the employer's activity.

**Some key points to consider:**

- Payments or other allowances under employment contracts with Highly Qualified Specialists (a special immigration status for foreign nationals in Russia) temporarily staying in Russia are exempt from OSIC.
- Payments or other allowances made by Russian entities to foreign (non-Russian) nationals working or doing business activities outside of Russia are exempt from OSIC.
- Income paid to contractors is exempt from contributions to the Social Insurance Fund (OSIC part), which effectively reduces the total OSIC burden.
- OAIC are not payable if the relevant civil contract does not stipulate accident insurance.
- Effective from 2017, the law governing Russian OSIC will be annulled and relevant amendments governing such contributions will be made in Chapter 34 of the Russian Tax Code. The new chapter will save the most main principal provisions.

**Foreign personnel****Accommodations and living conditions**

Accommodations in Moscow, St. Petersburg and some other major Russian cities are usually consistent with Western standards. Expatriates may purchase or rent apartments or houses to suit their needs.

Foreign employees can bring their families to live in Russia. Accompanying family members can obtain Russian visas based on the employment status of the working spouse/parent. A number of international schools serve the educational needs of expatriate children (although most of such schools are located in Moscow).

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 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, there are restrictions on the types of activities in which foreign employees can be engaged, for example a foreign individual cannot work in public service.

Foreign employees working in Russia may be classified according to the four categories described below. The employment of foreign nationals in Russia is regulated by specific rules for each category of foreign employee.

- (1) Foreign employees from member countries of the Eurasian Economic Union. These are foreign employees from several CIS countries, namely Armenia, Belarus, Kazakhstan and Kyrgyzstan, which together with Russia are members states of the Eurasian Economic Union (EAEU), an organisation that promotes regional economic integration.

Foreign employees in this category enjoy visa-free entry to Russia and do not need to obtain work permits or patents to work in Russia.

- (2) Highly Qualified Specialists (HQS). These are foreign employees who enter Russia on a visa basis and/or non-visa basis (excluding citizens of Armenia, Belarus, Kazakhstan and Kyrgyzstan) 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 RUB 167,000 (about USD 2,600) per month (employers must report to the immigration authorities on payments made to their HQS employees every quarter).

HQS work in Russia on the basis of personal HQS work permits, and their employers do not need to formalise company employment permits.

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

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

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

Such foreign employees must obtain patents to work in Russia.

Note that foreign nationals permanently residing in Russia on the basis of a permanent residency permit, or, for example, foreign employees temporarily engaged in assembling technical equipment delivered to Russia, are exempted from certain immigration law requirements. In practice, however, the number of such foreign nationals is relatively low and, hence, we do not describe them as a separate category of foreign employees.

It is also worth noting that there is a simplified procedure for formalising work authorisation documents for expatriates employed in representative offices, branches and subsidiaries of companies incorporated in countries that are members of the World Trade Organisation. But, this procedure is not widely used in practice, as it may prove less convenient and straightforward than the procedure for formalising foreign nationals as HQS employees.

### **Quota requirements**

Foreign employees from Eurasian Economic Union member states, HQS and regular foreign employees with visa-free entry to Russia are exempt from a quota system (limitation of the numbers of foreign employees in Russia) and can be hired even if the given year's quota has already been met. The quota system implies that regular foreign employees entering Russia on a visa basis are generally formalised within the quota number that is approved annually by the Russian government. For 2017, this quota number is 177,043 employees. If the annual quota has been filled in a given year, no foreign employees entering Russia on a visa-free basis may be formalised further.

Companies intending to hire foreigners must submit a request for a quota every year before the relevant deadline established for the Russian constituent region where the foreign national is going to work. Failure to apply for a quota in a timely manner may result in significant difficulties in employing foreign nationals.

The Russian government issues a list of professions that do not require a quota every year. The list usually includes the senior management of Russian companies and branch or representative offices, as well as IT security specialists, engineers, etc.

### **Fiscal registration numbers**

Under Russian law, a tax identification number (TIN) is assigned to each foreign employee working in Russia. The assignment of such numbers is confirmed by a TIN certificate issued in the name of the relevant foreign employee.

Although there is a statutory procedure for automatic assigning TINs to foreign employees by the authorities based on the foreign employees' immigration registration, it does not always work in practice and, hence, employers of foreign employees usually have to apply to the tax authorities to obtain TINs for 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 emergency medical aid in Russia, either through an insurance policy or through an agreement for provision of medical services concluded by an employer with a healthcare institution.

Such access should be available throughout the entire term of the employee's stay in Russia (and throughout the entire term of his/her family members' stay in Russia, where applicable).

### **Work permits**

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

Under Russian immigration law, persons in these employee categories are entitled to work in Russia only if they hold individual work permits (HQS work on the basis of HQS individual work permits). Also, as noted above, employers of regular foreign employees entering Russia on a visa basis must obtain company employment permits (i.e. have permission to employ foreign personnel).

Company employment permits and individual work permits are generally issued for one year and for a specific Russian region. An HQS work permit is generally issued for three years and may be valid for several Russian regions, however. Work permits cannot be renewed and require reapplication upon expiration.

The Russian immigration authorities will not issue company employment permits or individual work permits on the basis of secondment agreements. Under the RLC and relevant laws, only a direct employment contract can serve as the basis for issuing such permits. The process of formalising a work permit (either an HQS work permit or a regular employee's work permit) can only begin once a company (the employer) has been duly established. Employment is prohibited while a permit is still pending but has not been issued. 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 an HQS work permit is 14 calendar days.

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

### **Patents**

Patents must be obtained by regular foreign employees entering Russia on a visa-free basis (i.e. foreign employees entering Russia on a visa-free basis except for HQS and citizens of Armenia, Belarus, Kazakhstan and Kyrgyzstan). In accordance with recent amendments to Russian immigration law, patents have replaced work permits for this category of expatriate employees (previously, foreign employees entering Russia on a visa-free basis had to obtain work permits to work in Russia).

The period of validity of a patent is up to 12 months with the option of a one-time renewal for another 12-month period. Generally, a foreign citizen must work within the specific Russian region indicated in his/her patent. A patent is issued within the statutory period of 10 business days from the date the immigration authorities receive an application.

Foreign employees entering Russia on a visa-free basis with a valid patent may be employed by either legal entities or individuals.

### **Visas**

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

Regular foreign employees entering Russia on a visa basis must initially obtain a single-entry work visa, which should be valid for up to three months. This visa will subsequently be converted into a multiple-entry work visa valid for up to one year with the option of further extending it for one-year periods. The employee's family members obtain dependent visas under a similar procedure. They initially obtain three-month, single-entry dependent work visas, which should subsequently be converted into multiple-entry dependent work visas.

An HQS may obtain a multiple-entry work visa valid for up to three years right away. Their accompanying family members obtain dependent multiple-entry work visas, which are also valid for up to three years. An HQS may also take advantage of the 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 take a stringent approach to ensuring that foreigners' visas comply with their stated purpose of visiting or staying 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, trade shows 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 up to one year. However, a business visa may be issued for up to five years to an individual who is the representative of a major foreign company with large-scale investments in the Russian economy or that is participating in major investment projects (such as the Skolkovo Innovation Centre or the International Financial Centre).



### ***Exams on the Russian language, Russian history and the fundamentals of Russian law***

Regular foreign employees entering Russia either on a visa basis or a visa-free basis (excluding HQS and citizens of Armenia, Belarus, Kazakhstan and Kyrgyzstan) must pass an exam on the Russian language, Russian history and the fundamentals of Russian law as a precondition for obtaining work authorisation documents.

They can take this exam only at a number of certified educational institutions in Russia.

### ***Immigration registration and notification requirements***

Generally, the authorities must be informed through the immigration registration process every time an expatriate employee enters Russia. The same rule applies to the family members of expatriate employees. Information on when an expatriate employee leaves Russia is provided to the immigration authorities by the border control.

HQS and their family members as well as citizens of Eurasian Economic Union members states (Armenia, Belarus, Kazakhstan and Kyrgyzstan) enjoy a simplified procedure for informing the authorities that they have entered Russia. HQS and their family members are exempt from immigration registration requirements during the first 90 calendar days after entering Russia, whereas citizens of EAEU countries are exempt from such requirements for 30 calendar days after entering Russia.

Failure to comply with immigration registration rules may result in fines of up to RUB 500,000 (about USD 7,700) per employee (family member) per violation.

Please also note that employers must notify the immigration authorities on the conclusion and/or termination of employment agreements with expatriate employees. This requirement applies to all categories of expatriates including the four basic categories enumerated above, i.e. foreign employees from EAEU member states (Armenia, Belarus, Kazakhstan and Kyrgyzstan); HQS; regular foreign employees entering Russia on a visa basis; and regular foreign employees entering Russia on a visa-free basis.

Failure to comply with notification requirements may result in fines of up to RUB 1,000,000 (about USD 15,400) per employee per violation depending on the Russian region where the violation occurs.

### ***Specific regulation of the employment of foreign nationals and stateless persons***

There is a chapter in the RLC concerning the employment of expatriates (as well as stateless persons). In particular, this chapter provides for:

- specific requirements to employment contracts concluded 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.

## Concluding employment contracts

An employment contract with the terms of employment must be concluded in writing with each employee and executed in at least two copies within three business days after the date the employee starts work. Both parties should sign each copy. The employee must also confirm that he/she received a counterpart copy of the employment contract. Before employment contracts are concluded, the employer must familiarise employees with the relevant internal policies that relate to their specific labour activity.

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 RLC or other federal laws.

## Amending employment contracts

Employment contracts can only be amended by an agreement between the parties, except for those cases specified in the RLC.

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 RLC. The Labour Code establishes the grounds for termination by the employee and by the employer, and due to circumstances that do not depend 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 be eligible for reinstatement.

An employee may terminate employment relations with an employer on his/her own initiative without providing any reason. 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 RLC when terminating employment. The RLC gives 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 the employee also depends on the grounds for termination. Thus, in cases where an employment contract with a general director is terminated based on a relevant corporate decision, the employer must pay the general director a severance allowance equal to at least three average monthly salaries. The RLC establishes additional protection for a number of employee categories regarding dismissal, 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 Russian labour legislation related to secondment were introduced, and the latest such amendments are expected to come into force in early 2017. If enacted, these amendments will govern secondments between companies belonging to a single corporate group.

The key distinguishing feature of these amendments is the stipulation that staff secondment activity, if certain conditions are met, can be carried out only by:

- 1) private employment agencies; and
- 2) other legal entities that comply with the relevant legal requirements (e.g. affiliation or a shareholder agreement with a legal entity receiving seconded staff).

Russian labour legislation also establishes the general conditions when a staff secondment may be permissible, 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 the employment agreement with the seconding party; etc.

However, since a portion of the amendments to secondment legislation is still being drafted, we cannot foresee in any detail how secondment activities may be regulated in 2017.

## Specific types of employment

Russian labour legislation sets forth different employment formats by means of which an employer may structure employment relations with its employees. According to recent practice, the most useful formats for employers are remote work and employment of an itinerant nature.

### **Remote work**

Remote work was introduced in the RLC in 2013 and includes situations when employees work outside of the employer's office. Such working arrangements can be beneficial for an employer since it can help them to save on office rent, reduce their health and safety obligations, and simplify HR documentation (upon mutual agreement of the parties, data on remote work may not be entered into the employee's labour book<sup>15</sup>). 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.

### **Employment of an itinerant nature**

Employment of an itinerant nature means employment that requires an employee to travel regularly in order to perform his/her job duties. Employers are advised to establish such a work regime for those employees who must travel frequently because it would allow the company to reduce payroll costs and simplify HR documentation.

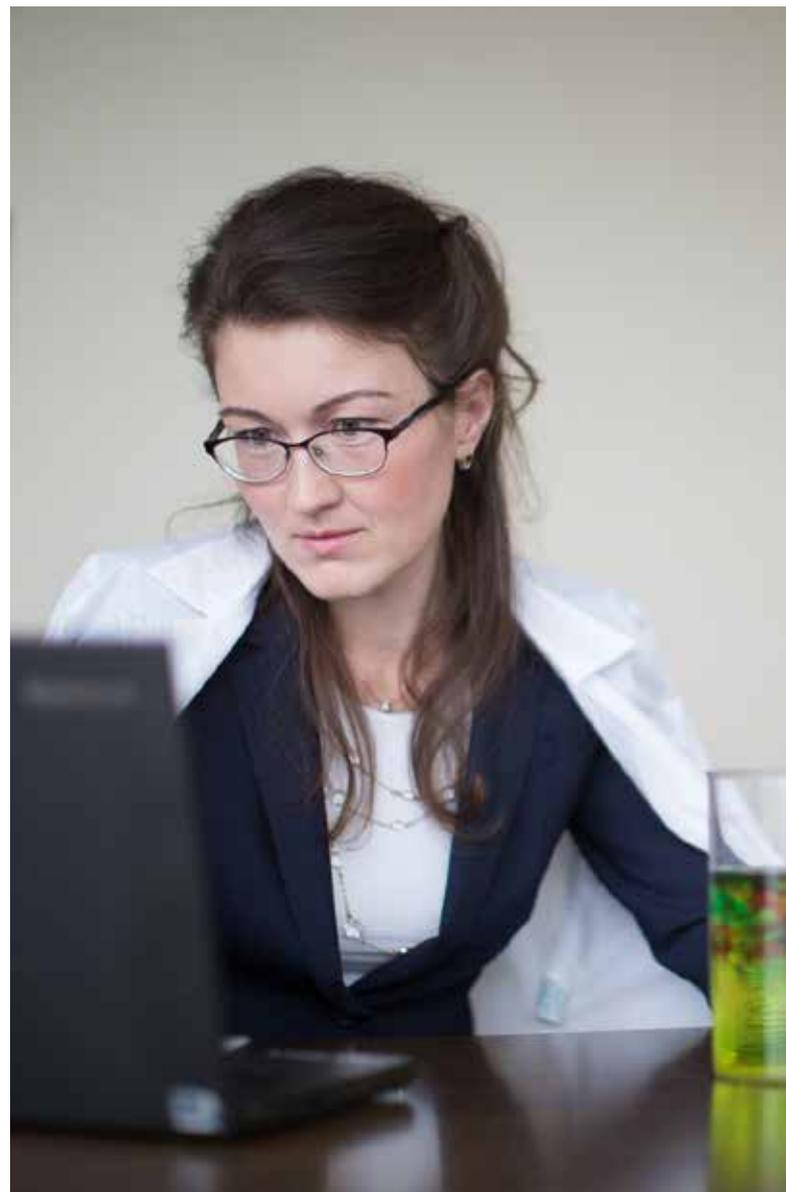
## Trade unions

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

The RLC stipulates that an employer in certain cases should consider the position of a trade union before adopting internal policies or dismissing employees who are union members.

## New sanctions for violations of labour law and health and safety requirements

As of 3 October 2016, a range of amendments had been introduced to the Russian Code of Administrative Offences (known by the Russian acronym COAP) with the aim of introducing stricter employer liability for violations of salary payment rules.



<sup>15</sup> Special document containing information about employment history of the employee.



# 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 (RAS).

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 that are 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 the financial statements.

The reporting period is the calendar year, i.e. from 1 January through 31 December.

Financial statements are submitted on an annual basis to the entity’s owners, the Federal State Statistics Service (Rosstat) and the Federal Tax Service (FTS). Annual financial statements must be filed with Rosstat and the FTS within three months after the year-end. Russian legislation may also require filing them with other government authorities.

### ***An auditor’s opinion should be submitted to Rosstat:***

- along with the relevant audited annual financial statements within three months after the year-end; or
- within 10 business days from the date 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 specific authorities stipulated by Russian law (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 in accordance with International Financial Reporting Standards (IFRS) (see Federal Law No. 208-FZ “On Consolidated Financial Statements”) and presented in Russian roubles only.

## Olaf Preller

Partner, Head of Foreign Desks, PwC Russia

*Despite widespread speculation about when the crisis will hit bottom and gloomy talk about Russia's economic dependency on commodities, we've seen some encouraging signs recently, including some foreign investment in the country over the past 12 months. Russia continues to be an important market, not least because of its land, natural resources and population. The sharp depreciation of the rouble together with the Russian government's concerted efforts to promote localisation through import substitution have also helped make the country an attractive venue for manufacturing operations aimed at serving the domestic market while producing competitively priced exports for foreign markets.*



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 the relevant auditor's opinion.

## Auditing

Auditing requirements are set forth in Federal Law No. 307-FZ "On Auditing".

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

Those entities subject to mandatory audit include: companies with net revenue<sup>16</sup> above RUB 400 million (around USD 6.5 million); companies with total assets<sup>16</sup> over RUB 60 million (around USD 1 million); all listed companies; professional securities market participants;

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 a stake of at least 25%; and state-owned companies and corporations.

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

In November 2016, Russian Standards on Auditing were superseded by International Standards on Auditing, which take effect in Russia on 1 January 2017.

<sup>16</sup> 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

### **Carry-forward of losses**

A number of amendments to the Russian Tax Code was enacted on 30 November 2016. In accordance with these changes, starting from 1 January 2017 the amount of recognised loss of prior periods cannot exceed 50% of the current year tax base for corporate income tax. This limitation will apply from 2017 through 2020. Starting from 2021, recognition of the entire amount of losses will be possible again.

At the same time, the limitation on carry-forward of losses for a 10-year period has been abolished in principle (which means that losses incurred since 2007 may be carried forward until fully recognised).

## Corporate taxation

### **Corporate residency**

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

The tax residency rules set basic and additional criteria for determining the place of management. Moreover, the rules specify those situations that do not affect residency status

(e.g. preparation of consolidated financial statements in Russia). Nevertheless, when assessing the risk of a company being deemed a Russian tax resident, it is advisable to evaluate all relevant facts and circumstances, even if the company's activities carried out in Russia would technically qualify for such exemptions.

The rules also specify four situations when a company may be deemed a Russian tax resident only on a willingly basis. These situations are when a company is:

- i) a party to a production sharing agreement (PSA);
- ii) an “active” foreign holding or sub-holding company (subject to compliance with certain conditions);
- iii) an operator of a new subsea field (or a direct shareholder of such an operator); or
- iv) engaged as its core activity in offering for lease or sublease marine or mixed river-ocean vessels and/or the international transportation of goods, passengers and their baggage, and providing related services.

### **Permanent establishment (PE)**

A permanent establishment is broadly defined in the Russian Tax Code (RTC) 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”.

### **Branch income**

Foreign legal entities (FLE) pay tax on profits attributable to a PE. The profits of an FLE's PE are calculated primarily on the same basis as Russian legal entities, including the composition of tax-deductible expenses. Although the RTC does not specifically mention the deductibility of expenses incurred outside of Russia by a foreign corporate head office with respect to its PE in Russia (including a reasonable allocation of administration costs), most double taxation treaties (DTT) provide for such an option.

Russian tax law has recently been amended to include a special provision on the taxable income of PEs. When determining the taxable income of a PE in Russia, its functions, assets, and economic and commercial risks should be taken into account. 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 an FLE 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 of such a PE would be calculated as 20% of its expenses related to such activities.

FLEs 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 corporate income tax (CIT) on a quarterly and annual basis only.

## **Group taxation**

### **Consolidated taxpayer regime**

The consolidated taxpayer regime is available for large Russian corporate groups. A group can comprise two or more Russian entities, in which the direct or indirect equity interest of one member in the charter/share capital of the other members equals 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 CIT, VAT, excise tax, and mineral resources extraction tax (MRET) paid during the year preceding the year of tax registration of a new consolidated group;
- at least RUB 100 billion in sales proceeds and other income;
- total value of assets of at least RUB 300 billion.

The advantages of applying this regime are as follows. First, transactions among group member entities are not controllable under Russian transfer pricing (TP) legislation (with one exception: transactions with mineral resources

subject to MRET with a percentage rate are still subject to control). Second, for the purposes of calculating CIT, it is possible to consolidate group member entities' profits and losses.

Starting from 2017, a limitation on recognition of losses incurred by loss-making members of a consolidated group has been introduced. The limit is set as 50% of the given consolidated group's tax base for the current (tax) period.

A three-year moratorium was imposed on the creation of consolidated groups in 2015; no new agreements for creating consolidated groups may be registered in 2016-2017.

### **Controlled foreign companies (CFCs)**

CFC rules have been in effect in Russia since 1 January 2015.

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

### **Definition of a CFC**

An entity is deemed to be a CFC (or other structure) if it meets the following criteria:

- 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 of a foreign company is defined as:

- a person whose direct and/or indirect participating interest in a foreign company (for individuals, jointly with their 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 (for individuals, jointly with their spouses and minor children) hold a direct or indirect interest(s) in the foreign company in excess of 50%.

With respect to the 2015 profits of a CFC, the transitional 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 Law stipulates 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.

### **Available CFC exemptions**

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

- non-profit organisations that do not distribute profits;
- companies incorporated in the Eurasian Economic Union (EEU);
- companies resident in jurisdictions that have a tax treaty with Russia and share tax-related information with Russia, and that pay tax at an effective rate equal to at least 75% of the Russian blended corporate income tax rate;
- companies 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);
- active foreign holding companies or active foreign sub-holding companies (a share of direct participation of at least 75% during a period of at least 365 calendar days, passive income [except active dividend income] does not exceed 5% of total income);
- banks and insurance companies if they operate in a jurisdiction that has a tax treaty with Russia and 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 the assignee of the rights and obligations related to listed bonds issued by another foreign company, subject to certain conditions (e.g. if the interest income earned should equal at least 90% of the company’s total income for the period and these issuers operate in a jurisdiction that has a tax treaty with Russia and shares tax-related information with Russia);
- 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 new subsea fields (or direct shareholders of such operators).

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.

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.

### **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 a tax treaty with Russia and shares tax-related information 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 audit).
- Profits are calculated in accordance with the requirements of the Russian Tax Code (RTC). This method is more burdensome and likely to result in a higher Russian tax bill in most cases, as the RTC 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 out of 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 (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**

Foreign taxes paid on the profits of a CFC, either under Russian law or the laws of a foreign jurisdiction, may be offset against the 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, the Russian CFC rules have no implications for the CFC itself.

## **Transfer pricing**

Russian transfer pricing (TP) legislation is essentially based on Organisation for Economic Co-operation and Development (OECD) principles, with certain important deviations. This legislation establishes criteria for related parties and controlled transactions, transfer pricing methods for determining arm’s-length prices/profitability, a list of permitted information sources, and compliance requirements.

On 6 September 2016, the Russian Ministry of Finance published a bill that, if enacted, would introduce three-level TP documentation for multinational corporations (similar

to the documentation recommended by the OECD). The obligation to file country-by-country (CbC) reports would probably apply to financial years starting after 1 January 2017. Voluntary filing for the periods that started on or after 1 January 2016 may be permitted.

Advanced pricing agreements (APA) are available to Russian companies registered as among the “largest” taxpayers. Bilateral APAs are not presently available because relevant regulations have not yet been adopted.

## 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;
- regional investment projects and special investment contracts;
- Advanced Development Zones;
- the free port of Vladivostok;
- incentives related to certain activities (e.g. R&D and IT-related activities);
- incentives related to specific projects (e.g. Skolkovo, 2018 FIFA World Cup).

The incentives are briefly described below.

Note also that Russian tax law provides for special tax regimes to support small and medium-sized enterprises (SME). These include unified and simplified tax regimes, as well as a unified agricultural tax.

### Regional incentives

Many industrial regions of Russia offer numerous tax and non-tax incentives and benefits to investors.

Regional incentives in the form of reduced tax rates (primarily the given region’s portion of CIT, property tax and transport tax) are granted to certain classes of taxpayers, typically large investors or entities operating in specific industries. Local land tax incentives are frequently available for such investors as well. The size of an entry investment is usually in the range of around RUB 50-150 million. Some regions require a lesser amount, and some do not require any minimal amount at all (it is subject to negotiation).

There are also several notable non-tax incentives, including the allocation of budget subsidies, partial compensation of capital expenditures, provision of guarantees to banks, simplified access to infrastructure facilities, lower rental charges, and administrative and legal support, among others.

### Special economic zones (SEZ)

The following types of SEZs have been established in Russia:

- industrial zones;
- technical research and implementation zones for scientific projects;
- tourism and recreation zones for the development and effective use of Russia’s wealth of tourist attractions;
- port zones.

The minimum amount of investment to be eligible for such incentives are:

- RUB 120 million within the first three years from the date of obtaining resident status for residents of industrial zones;
- RUB 400 million within three years from the date of obtaining resident status in a port zone in cases of port facilities construction (RUB 120 million in case of reconstruction).

Moreover, most regions provide their own incentives with respect to CIT and transport tax.

In addition, reduced social contribution rates are available for residents of industrial zones if they are engaged in R&D.

Residents of SEZs may also enjoy free customs zones.

### Advanced Development Zones (ADZ)

ADZ have been established in the Russian Far East. ADZs offer special terms for companies operating in various industries (e.g. agriculture, textiles, chemicals, pharmaceuticals, furniture, telecommunications, education, science and technology, etc.), including CIT and property tax incentives, free customs zones, project financing and simplified rules for hiring foreign employees.

### Free port of Vladivostok

Residents of the port enjoy the following tax incentives:

- zero rate on the federal portion of CIT for a five-year period;
- reduced regional portion of CIT (5% at most during the first five years of profitable sales and at least 10% during the subsequent five years). Specific rates are established by regional law;
- reduced social contributions (7.6% instead of the standard 30%) during a 10-year period.

### Activities incentives

The following “activities” incentives are available to taxpayers in Russia:

- reduced CIT rate for IT companies in several regions;
- 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 IT companies.

### **Special project incentives**

Participants in the Skolkovo Innovation Centre enjoy a number of benefits, the main ones of which are: exemption from CIT and property tax, as well as from VAT liability, and reduced rates for mandatory social fund contributions.

The same approach is applicable to the Fédération Internationale de Football Association (FIFA), and FIFA branch organisations and contractors, as well as to the confederations and national football associations cited in the Russian Federal Law “On Preparing for and Hosting the FIFA World Football Championship and the 2017 Cup of FIFA Confederations in the Russian Federation, and on Amending Certain Legislative Acts of the Russian Federation” (except for benefits related to social fund contributions).

### **Regional investment projects and special investment contracts**

Incentives related to specific projects are not limited to Skolkovo and the World Cup-2018. In addition to these projects, there are two types of contracts that may be concluded directly with the Russian Federation: a special investment contract and a regional investment project. Investors who have concluded such contracts may enjoy a reduced CIT rate and a number of non-tax incentives, including privileges regarding rental payment for land plots, “grandfather” clauses, etc.

### **Foreign tax credit**

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

## **Corporate income tax (CIT)**

### **Tax rate**

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).

The maximum CIT rate for all taxpayers in the Russian Federation has been set at 20%. In the period 2017–2020 a new allocation proportion applies: 3% of CIT revenues is allocated to the federal budget, whereas 17% is allocated to the budgets of the relevant constituent regions (in 2016 the allocation proportion was 2% / 18%, respectively). Individual Russian constituent regions may bring their CIT rates down to 12.5%; thus, the total minimum tax rate may be reduced to 15.5%.

FLEs 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 the 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 calculated following the rules and principles established in the RTC. 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 their 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% CIT rate and are added to ordinary income in order to arrive at the taxable income.

There are two tax baskets for taxpayers performing operations with securities and derivatives: (i) general and (ii) results from operations with non-listed securities and non-listed derivatives. A loss on the second basket cannot be offset with profits on the first basket (however, the opposite offset is possible). It is worth noting that, starting from 2016, prices charged in transactions with securities and derivatives should be compared with the market price only if a transaction is controlled under transfer pricing rules.

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 is available 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 the 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 been active in the high-tech/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 in the high-tech/innovative sector of the economy;
- real estate in Russia accounts for less than 50% (directly or indirectly) of the total assets of the company issuing shares.

Beneficial tax treatment will only apply to shares and interests in charter capital acquired by taxpayers after 1 January 2011.

### **Dividend income**

Dividends earned by Russian legal entities from Russian or foreign legal entities are taxed in Russia at a 13% flat rate.

Dividends earned 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 dividends paid out; and
- the shares or depository receipts have been owned for at least 365 calendar days on the date the dividends are declared.

Dividends from companies domiciled in offshore zones with preferential tax regimes are not eligible for this tax exemption. The Ministry of Finance maintains a list of offshore zones.

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% (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 government and municipal securities, which are 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 "Interest expense" in the "Deductions" section for more details).

### **Exchange gains and losses**

Since 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 were taxable (deductible) upon 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 properly documented, aimed at generating income and not specified in the RTC 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 useful lifespans of assets for tax purposes are established in the Classification of Fixed Assets, which was approved 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 three 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 built) 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 has not applied to sales to unrelated parties since 2013).

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

### Goodwill

Under Russian 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 government authorities. But, 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 not be deducted by either a parent company or a subsidiary for tax purposes.

### Interest expenses

The tax authorities can audit interest income and expenses only for transactions that are deemed as controlled under Russian transfer pricing rules (this means transactions with related parties in most cases) and only in accordance with these rules.

The following table shows how the market corridors (safe harbours) are applied to interest accrued since 2016:

Debt currency	Type of loan	Safe harbours
Russian roubles (RUB)	Rouble-denominated loans between Russian entities	75% to 125% of the Central Bank of Russia (CBR) key rate
	Other rouble-denominated loans	75% to 125% of the CBR key rate
euro (EUR)	Foreign currency-denominated loans	EURIBOR +4% to EURIBOR +7%
Chinese renminbi (CNY)		SHIBOR +4% to SHIBOR +7%
British pounds (GBP)		LIBOR in GBP +4% to LIBOR in GBP +7%
Swiss francs (CHF) or Japanese yen (JPY)		LIBOR in relevant currency +2% to LIBOR in relevant currency +5%
Other		LIBOR in USD +4% to LIBOR in USD +7%

The Central Bank of Russia's key rate has been 10% since September 2016.

Starting from 2017, free-of-charge loans between Russian related parties are not controlled under TP rules.

### Bad debt

Losses in the form of bad debts written off are usually deductible. Companies may create a bad debt provision. The method of accrual for the provision 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).

A tax deductible bad debt provision can be created only to the extent of the excess of amounts receivable over amounts payable (if any) to the same counterparty.

### Charitable contributions

Russian tax law does not provide 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 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 government 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.

### 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 government budget are not deductible.

### Taxes

Taxes paid by a taxpayer, as well as social contributions of employers, are deductible for tax purposes. Trade levies are credited against CIT.

### Net operating and capital losses

Starting from 1 January 2017, the amount of a recognised loss of prior periods cannot exceed 50% of the current year tax base for CIT purposes. This limitation will apply from 2017 through 2020. Starting from 2021, recognition of the entire amount of losses will be possible again.

At the same time, the limitation on carry-forward of losses for a 10-year period has been abolished in principle (which means that losses incurred since 2007 may be carried forward until fully recognised).

Carry-back of losses is not allowed.

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

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



### **Ekaterina Lazorina**

Partner, Russia and CIS Tax and Legal Services  
Practice Leader, PwC Russia

*Russia is increasingly becoming a part of the world tax system. The country is planning to enact legislation which will enable exchange of information with the foreign tax authorities (Country-by-Country (CbC) reporting and information exchange among banks (CRS)). These initiatives will help facilitate greater transparency in transactions involving international financial systems. In turn, this means that Russian taxpayers now face a more challenging agenda and must focus greater attention on a range of complex issues that are highly critical from the standpoint of international tax reporting. To emphasise the increasing importance of tax strategy as a core element of corporate responsibility programs and to identify best practices, together with the Russian Union of Industrialists and Entrepreneurs (RSPP), we launched the annual Corporate Tax Award.*

### **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 RTC, 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 CIT purposes and are subject to WHT at the rate of 15% (treaty benefits may apply to reduce the rate).

Since 2016, interest on loans from independent banks have been exempted from the thin capitalisation rules (provided the debt [both principal and interest] was not repaid by a foreign shareholder or its affiliates as a result of execution of a guarantee to the bank).

Starting from 1 January 2017, a new version of the rules applies. It is aligned with transfer pricing rules including, among other things, a transition from 20% to 25% participation criteria. The major change involves expanding the scope of thin capitalisation rules to include loans from foreign related

companies that do not hold a direct or indirect interest in a Russian borrower (foreign “sister” companies). This position corresponds to current Russian judicial practice; however, no criteria for the substance of a foreign “sister” company is provided to shield a loan from the scope of the rules.

Among other adopted changes:

- Loans provided exclusively within Russia will not be controlled (provided certain requirements are met).
- All listed liabilities of a taxpayer should be considered in aggregate (so the split of loans will not allow for avoiding the rules).
- A debt arising upon the issue of Eurobonds is not subject to the rules.

### **Withholding taxes**

Under the general provisions of the RTC, income earned by an FLE and not attributed to a PE in Russia is subject to WHT in Russia (to be withheld at source). WHT rates are as follows:

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

Taxation of margins (rather than gross income received from the types of sales listed above) may be applied only if expenses are properly documented.

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: (i) interest payments on Russian government securities; (ii) interest payments on tradable bonds, issued in accordance with the laws of foreign countries; and (iii) payments made by Russian companies to finance coupons on Eurobonds issued by special purpose vehicles (SPV) 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 residency, 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 treaties concluded by the Union of Soviet Socialist Republics (USSR) until they are renegotiated by the Russian government. Furthermore, the list of effective tax treaties is continuously updated.

### **Concept of “beneficial ownership”**

The concept of the actual owner of income (i.e. the “beneficial owner”) was introduced into Russian tax legislation by the so-called “Deoffshorisation” Law. It determines the ability to apply lower tax rates under a DTT.

The tax authorities have not yet come up with a concise test of beneficial ownership, which means that Russian tax agents will not be entirely comfortable applying reduced tax rates on income paid abroad. In making any payments, they would have to consider the risk of additional tax and penalties to be paid at their own expense.

According to the law, a tax agent has the right to request confirmation that a foreign organisation is the beneficial owner of income. If the tax agent becomes aware of who is the beneficial owner of income, the law allows for using a corresponding treaty with the country where this beneficial owner resides (for dividends, indirect interest is treated as direct interest).

If the beneficial owner is a Russian tax resident, the income paid is taxed under the RTC rules (note that a zero tax rate on dividends is applied under additional conditions). In such cases, the tax authorities must be notified about the payments made.

## 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 insignificant.

### **Excise duty**

Excise taxes are generally paid by producers of excisable products on their domestic supplies. Excise taxes are also charged on imports of excisable goods. Exports of excisable products are generally exempt from excise taxes. Excisable goods include cars, tobacco, alcohol, and certain oil products. Special excise rates for each type of excisable goods are established in the RTC. The rates vary widely 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 it. 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); or
- movable property entered into a company’s books as of 1 January 2013 as fixed assets, except for property obtained as a result of:
  - reorganisation or liquidation of legal entities; or
  - transfer or acquisition from related parties.

Starting from 2018 the exemption of movable property will be available only in those Russian constituent regions where local legislation allows it. Currently, this is a federal tax incentive that may be applied by all taxpayers.

From 2015 through 2034, a zero rate applies to trunk gas pipelines and structures constituting integral parts of such 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 exempted, is now taxed. The tax rates applicable under the laws of Russia’s constituent regions to public railroads, trunk pipelines, power lines, and facilities constituting an integral technical component of the above objects cannot exceed 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.

Certain real estate properties are taxed based on their cadastral value (which 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 PE in Russia or not related to their operations through a PE in Russia.

The tax rate for such properties may not exceed 2% in 2016 and subsequent periods.

Actual tax rates and special rules for determining the taxable base for certain properties are currently set by individual constituent regions. According to the law of the City of Moscow “On Property Tax”, the tax rates will be 1.3% in 2016, 1.4% in 2017, and 1.5% in 2018.

### **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 individual Russian constituent regions. Reporting and payment rules have been established by regional legislative authorities.

A multiplier (up to three) depends on the age and cost of a car. For example, in the City of Moscow, the tax may be as high as RUB 200,000 per year for the most high-end class of vehicle.

### **Social contributions**

The annual salaries of all employees are taxed under the following rules (effective in 2017):

- contributions to the Social Insurance Fund: only the first RUB 755,000 of salary are taxed (at a rate of 2.9%);
- contributions to the Pension Fund: the first RUB 876,000 are 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 are covered by (i) pension insurance contributions at a rate of 22% within the threshold of RUB 800,000, and a 10% top-up charge on remuneration paid in excess of the threshold, and (ii) social insurance contributions at a rate of 1.8% within the threshold of RUB 723,000. The only exception made is for Highly Qualified Specialists who hold a relevant 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 relevant 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 greenfields in certain regions of Russia (e.g. eastern Siberia, internal and territorial waters in the northern polar zone, the Azov and Caspian seas, and the Nenets and Yamal regions) 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, 3.8% for potassium salt, 4.8% for ferrous metals, 6% for products containing gold, and 8% for non-ferrous metals and diamonds.

Reduced MRET rates apply to investors in Russia's Far East (see “Regional incentives” in the “Tax credits and incentives” section for more details).

### **Environmental fee**

An environmental fee must be paid by manufacturers and importers of goods to be disposed of after they are no longer fit for use or consumption because of wear and tear, broken down by certain groups of goods. These include paper and paper products, rubber and plastic products, textile and leather, metals, and electronics.

It should be noted that the fee is not technically a tax, and is established by a special law that is not part of the RTC. It is levied on entities operating in specific industries whose products are determined to have an environmental impact that warrants compensation.

The fee is calculated by multiplying three values: (mass/quantity of goods subject to utilisation [or mass of packaging]) \* (levy rate) \* (utilisation standard in relative units).

The following groups of goods are subject to the highest environmental fee amounts in 2017: rechargeable batteries, computer hardware, consumer electronics, and some types of industrial equipment.

## **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 CIT return must be filed by 28 March of the year following the end of the reporting year.

### **Payment of tax**

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



# Value added tax (VAT)

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

There is no separate VAT registration in Russia (with the exception of electronic services). 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 a transaction and is entitled to recover input VAT incurred on inventory costs and other related business expenses. Although not originally based on the European Union (EU) model, the Russian VAT system has nonetheless converged more with it. Currently, however, it still 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 to certain basic foodstuffs, children's clothing, medicines and medical products, printed publications, etc.). The same VAT rates (as for domestic supplies) apply to 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 the right of input VAT recovery.

The application of the 0% VAT rate and recovery of relevant input VAT amounts are confirmed by submitting a number of documents to the tax authorities within certain time limits. Since 1 July 2016, recovery of input VAT related to the export of goods (except for exports of mining products) has been performed according to general recovery rules, i.e. prior to submission of confirmation documents to the tax authorities. Special rules are in place for the documentary confirmation of the right to tax export supplies to Customs Union member countries at the 0% VAT rate.

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 provided by certified establishments, sales of certain essential medical equipment, passenger transportation, and certain other socially important services. Most accredited offices of foreign legal entities (as well as their accredited employees) may be exempt from VAT on property rental payments. The provision of VAT-exempt supplies does not entail the right to recovery of attributable input VAT. Instead, costs associated with non-recoverable input VAT are, in most cases, deductible for corporate income tax purposes.

Effective 1 January 2017, a list of services rendered through the Internet or other similar electronic networks by foreign suppliers to Russian individuals will be subject to Russian VAT. Depending on the particular type of service, either the 18% VAT rate or a VAT exemption may apply. If a foreign supplier is directly involved in settlements for electronic

services provided, it would be required to register for tax purposes in Russia and fulfil its Russian VAT obligations (including payment of Russian VAT and filing VAT returns with the tax authorities).

## Withholding VAT

The 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 have been supplied for VAT purposes. For example, certain services are deemed to have been supplied where they are performed, whereas some are deemed to have been supplied where the “buyer” of the services carries out its activity, some where the relevant movable or immovable property is located, and still others where the “seller” has its place of activity, etc.

Under the reverse-charge mechanism, a Russian buyer must account for VAT on any payment it makes to a non-tax registered foreign company, if the payment is connected to the supply of goods or services considered to have been supplied in Russia, based on the VAT place of supply rules, and which do not fall under any VAT exemptions 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 VAT withheld to the Russian budget. The VAT withheld may be recovered by 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 that they adhere to the set of rules established by VAT legislation.

### ***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 the purchase of 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 remitted to Russian suppliers of goods (work, services) provided that such acquired goods (work, services) are for use in VATable activities. Please note that taxpayers are entitled (rather than obligated) to apply this rule, and they may choose whether or not to exercise this right.

## VAT compliance requirements

Each taxpayer performing VATable supplies of goods, work, services or property rights must issue VAT invoices and provide them to customers. A taxpayer supplying VATable goods, work, or services to a customer that is not a VAT payer may opt not to issue a VAT invoice if agreed in writing with the customer. VAT invoices must be issued within five days after the supply has occurred. The VAT invoice is a standard form that is established by the government. Compliance with invoicing requirements is crucial for 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. Since 2014, only electronic VAT returns may be filed. VAT must be paid after the end of each quarter in three instalments, no 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 remitted on the date of the external payment.

## Import VAT

Import VAT is payable to the customs authorities upon the importation of goods. The tax base for import VAT is generally the customs value of the imported goods including excise duties. Either the 18% or 10% VAT rate may apply upon the import of goods into Russia, depending on the specific nature of the goods. Import VAT may generally be claimed for recovery by the importer provided that it meets the established recovery requirements.

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 technological equipment (including their components and spare parts), analogues of which are not produced in Russia. The Russian government has issued a list of such equipment

## Import duties

In addition to VAT, customs duties may be levied on assets imported into the Russian Federation. See chapter 4 for details.



# Tax litigation

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

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

At present, if taxpayers seek to challenge in court the decisions and other documents or actions (or failure to act) of a Federal Tax Service (FTS) inspectorate, before taking legal action they must first contest such decisions or actions with the relevant higher tax office.

In recent years, tax disputes have increasingly been resolved at the pre-trial (administrative, higher 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.

## 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 FTS). 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 were 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 cassation courts (third instance or level). If litigation goes through all three instances (levels), the process usually takes from nine to twelve months on average.

Russian law provides the option of appealing a cassation court's ruling by filing a "second" cassation appeal with the Judicial Board of the Supreme Court of the Russian Federation (SCOTRF). However, only a significant breach of substantive and procedural law by arbitrazh courts may serve as grounds for the SCOTRF Judicial Board to invalidate the rulings of such courts in the course of a cassational procedure.

In turn, a ruling issued by the SCOTRF Judicial Board may be appealed in accordance with the SCOTRF Presidium's supervisory procedure.

The grounds upon which the SCOTRF Presidium may invalidate previously issued lower court rulings include breaches in the uniformity of the judicial application and interpretation of legal provisions, civil and political rights, and the rights and legitimate interests of the general public and other public interests.

Resolutions handed down by the SCOTRF Presidium come into force immediately and may not be appealed further.



# Corporate governance

## Russian regulatory environment for corporate governance

- Federal Law No. 208-FZ of 26 December 1995 "On Joint Stock Companies" (the "JSC Law")
- Federal Law No. 39-FZ of 22 April 1996 "On the Securities Market"
- Federal Law No. 208-FZ of 27 July 2010 "On Consolidated Financial Statements"
- Regulation on Information Disclosure by Equity Securities Issuers, approved by Order of the Bank of Russia
- Moscow Exchange (MOEX) Listing Rules
- Corporate Governance Code (approved by the Bank of Russia Board of Directors on 21 April 2014)

In 2014, the Bank of Russia Board of Directors approved a new Corporate Governance Code (the "Code"). It serves as a set of guidelines for best standards and practices and is intended to help Russian companies move toward a new level of corporate governance and increase their attractiveness in the eyes of Russian and foreign investors. Although the Code itself is strictly of an advisory nature,

some of its underlying principles and specific provisions are reflected in the MOEX Listing Rules and are a mandatory condition for including shares in the first and the second quotation levels. Moreover, in 2014 the Federal Agency for State Property Management (in Russian: Rosimuschestvo) mandated that 13 major state-controlled Russian companies implement the Code and report on the progress of its implementation.

## Shareholder rights

Russian law gives shareholders, including minority shareholders, a wide range of rights for participating in corporate management and establishes clear procedural requirements for calling, preparing and holding a company's General Meeting of Shareholders. Some issues that are not regulated by the JSC Law<sup>17</sup> are covered by the Code (for example, the inadmissibility of participation of "quasi-treasury" stock in company management). The Code also contains provisions mandating that companies set requirements that are stricter than those stipulated by law (in line with best corporate governance practice). Some of these provisions of the Code have been reflected in the corporate governance requirements contained in the MOEX Listing Rules.

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

A special issue concerns shareholders' exercise of rights to participate in profit sharing. In accordance with the MOEX Listing Rules, including shares in the first quotation level requires that the issuer company board of directors approve a document defining the dividend policy. In turn, the Code provides detailed practical recommendations on setting corporate dividend policies, including the recommendation of establishing a procedure for determining the minimal share of consolidated net profit to be allocated toward dividend payouts.

## Boards of directors

The board of directors (BoD) is the key element in any company's corporate governance system, which is charged with overall supervision of business activities.

The JSC Law sets forth the BoD's main areas of responsibility and authority, as well as the general requirements for its composition, the functions of the BoD chairman, and the general procedural requirements for preparing and holding BoD meetings, among other things. Furthermore, the Code gives recommendations on a number of key issues, in particular for establishing a balanced BoD; the BoD's role and functions; the structure, composition and role of BoD committees; organising the BoD's activities; evaluating and improving its operational efficiency; and the remuneration of BoD members. The Code also provides practical guidance on how the BoD should perform its key functions, and recommends specific tools and mechanisms. Finally, the MOEX Listing Rules cover a number of issues related to selecting independent directors and forming BoD committees.

### **Formation of the boards of directors, selection of independent directors**

#### **Size matters**

According to the Code, the quantitative composition of the board of directors should facilitate organising its activities in the most efficient manner, including the possibility of forming BoD committees as well as providing significant minority shareholders with the opportunity to select candidates of their choice for membership in the BoD.

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**

The JSC Law limits the number of BoD seats that may be held by a company's senior executives (who, under the Law, include the sole executive body and members of the collegial executive body) to one-fourth of its total membership. However, this is not an absolute guarantee that all shareholders' interests will be adequately represented. Thus, the effective operation of the board of directors requires the participation of independent directors.

**Figure 10 Requirements and recommendations for the number of independent directors**

The MOEX Listing Rules require		The Code recommends
First tier	Second tier	
At least one-fifth of BoD members, at least three BoD members	At least two BoD members	At least one-third of BoD members

The criteria that companies use to determine the independence of their BoD members are of great importance. The new Code provides expanded, **independence criteria**, which are comparable to or often more stringent than the criteria applied in international best practices. In fact, they form the underlying basis of the independence criteria contained in the MOEX Listing Rules.

The objectivity of the BoD and its independence from management can be enhanced further by separating the functions of the BoD chairman from those of the company's executive management, as well as by electing an **independent chairman of the BoD**.

### **Balance of knowledge and experience**

To be highly effective, the BoD should be balanced in terms of its membership, including among other things as regards its members' qualifications, experience, knowledge and professional qualities. As well, the board must enjoy the trust and confidence of shareholders. Therefore, the Code recommends selecting board members who have an impeccable business and personal reputation, as well as the knowledge, skills and experience required to make decisions within the board's purview and for effectively carrying out its functions.

**Figure 11** Requirements and recommendations regarding the composition of BoD committees

	Requirements of listing rules		Recommendations of the Code
	First tier	Second tier	
<b>Audit committee</b>	<ul style="list-style-type: none"> <li>Only independent directors<sup>19</sup></li> <li>Independent director as committee chairman</li> </ul>	<ul style="list-style-type: none"> <li>Only independent directors<sup>20</sup></li> <li>Independent director as committee chairman</li> </ul>	<ul style="list-style-type: none"> <li>At least three board members</li> <li>Only independent directors</li> <li>At least one independent director with expertise and experience in preparing, analysing, evaluating and auditing accounting (financial) statements</li> </ul>
<b>Remuneration committee</b>	<ul style="list-style-type: none"> <li>Only independent directors<sup>19</sup></li> </ul>	–	<ul style="list-style-type: none"> <li>At least three board members</li> <li>Only independent directors</li> <li>Independent director as committee chairman who does not simultaneously chair the BoD</li> </ul>
<b>Nominations committee</b>	<ul style="list-style-type: none"> <li>Only independent directors<sup>19</sup></li> </ul>	–	<ul style="list-style-type: none"> <li>At least three board members</li> <li>Mostly independent directors</li> </ul>

### Forming board of directors committees

#### The structure of BoD committees

According to best corporate governance practice, the BoD establishes various committees for preliminary consideration of the most important issues pertaining to the company's activity. This allows for a more thorough study of the relevant issues and for more balanced decision-making.

Under the MOEX Listing Rules, the following committees are required for inclusion in the *first quotation level*:

- audit committee;
- remuneration committee;
- nominations committee (HR, appointments).<sup>18</sup>

Inclusion of shares in the MOEX's *second quotation level* requires just an audit committee.

#### BoD committee composition

The membership of BoD committees should be selected so as to promote a comprehensive discussion of corporate issues that considers differing opinions. Key roles in the work of BoD committees are assigned to independent directors. Committees should be formed, first and foremost, based on the BoD members' professional experience, expertise and skills, thus enabling them to make a significant contribution to the committees' work.

### Establishing efficient procedures for the work of the board of directors

Raising shareholders' confidence in the BoD's effectiveness requires establishing efficient procedures for the BoD's work and disclosing information about its activities.

#### Efficient work planning

The work of the BoD should be planned based on the need to perform key board functions, while also taking into account the scale of the activities and the tasks that the company must perform within a specific time period. Best practice calls for holding BoD meetings at least once every two months, including in-person sessions devoted to exploring the most critical issues at least every quarter.

#### An efficient, transparent decision-making process

It is important that shareholders understand how and why the BoD makes specific decisions. Shareholders (primarily minority shareholders) are interested in seeing that the views of all BoD members (including independent directors and representatives of minority shareholders) are duly considered in the decision-making process, because to a certain extent this guarantees that decisions made will adequately reflect the interests of the company and all of its shareholders. So, it is recommended that decisions on the most important matters be adopted by a qualified majority of at least three-fourths of the votes of BoD members. In addition, shareholders should receive, upon their request, detailed minutes of BoD meetings, which should record not only all decisions made, but also the course of the discussion and the opinions of board members on the agenda items.

<sup>18</sup> The MOEX Listing Rules assume that the Remuneration and Nominating committees' functions (HR, appointments) may be carried out by a single committee.

<sup>19</sup> If this is impossible for objective reasons, the majority of the committee must be made up of independent directors, and the other committee members should be among those board members who are not the issuer's sole executive body and/or members of its collegial executive body.

<sup>20</sup> If this is impossible for objective reasons, the Audit Committee may include those board members who are not the issuer's sole executive body and/or members of its collegial executive body.

## Risk management, internal control and internal audit

A company's risk management and internal control systems and internal audit function are important elements of its corporate governance. Although the relevant issues are not directly governed by law, the Code does devote considerable attention to these issues. In addition, the MOEX Listing Rules require that a company have internal audit functions as a condition for inclusion of their shares in the first and second quotation levels. Finally, in the past few years, Rosimuschestvo has issued a number of methodological instructions and recommendations on risk management, internal control, internal audit, and anti-corruption measures, among other things. For the most part, the latter are mandatory for major state-controlled companies.

### **Building effective risk management, internal control and audit functions**

In recent years, especially following the financial crisis, risk management issues have attracted greater attention within the investment community. Moreover, they have acquired particular significance for companies in the light of widespread criticism of how risks are managed, especially as regards BoD's lack of awareness of the risks undertaken by their companies or excessive risk-taking. All of this inevitably has a deleterious effect on share valuations. In addition, Russian companies pay the price (also in the form of discounted share valuations) for the higher corruption risk that is still associated with doing business in Russia.

Efficient **risk management and internal control** systems (including a compliance system) are necessary for making shareholders and investors confident in a company's prospects and the achievement of its business objectives. When developing risk management and internal control systems, companies can use existing concepts that have proven their effectiveness in practice.<sup>21</sup> Corporate risk management and internal control systems should cover all areas of a company's business operations and be integrated into all business processes. Executive management is responsible for its effective functioning, while the BoD should determine the acceptable scope of risks for the company (risk appetite), as well as the core principles and approaches to organising the risk management and internal control systems.

A big part of giving the BoD and shareholders confidence in the effective functioning of the risk management and internal control systems is the evaluation of their effectiveness, which should be carried out by a party that is independent from the company's executive management. For this purpose, the company should create a structural unit to carry out the **internal audit** function and that

reports directly to the BoD. The MOEX Listing Rules set out the relevant requirements for the inclusion of shares in the first and second quotation levels. When developing an internal audit function, companies should focus on common standards for activity in the field of internal audit.<sup>22</sup>

## Disclosure of information

**Mandatory disclosure of information about a company's activity is regulated by Russian federal law, including:**

- Federal Law No. 39-FZ of 22 April 1996 "On the Securities Market"
- Federal Law No. 208-FZ of 26 December 1995 "On Joint Stock Companies"
- Federal Law No. 208-FZ of 27 July 2010 "On Consolidated Financial Statements".

It is also governed by a number of regulations, of which the primary one is the Regulation on Information Disclosure by Equity Securities Issuers.

The Code contains a list of additional information that is recommended for disclosure, including information on the company, corporate governance system and practices, financial activity and financial standing, capital structure, and corporate social responsibility, as well as a list of additional information that is recommended for inclusion in the annual report (in addition to information that must be provided by law).

### **Enhancing information disclosure**

Current information disclosure standards require maximum transparency from a company in all matters related to its activities or which may somehow affect the results of its activity. The disclosure of information is how shareholders, investors, regulators, analysts and the general public obtain an impression about the company.

The question here concerns not just the need to comply with legal information disclosure requirements in the form of quarterly reports, statements of material corporate actions, consolidated financial statements and so on. What is equally important for investors is that the company avoid taking a purely formalistic approach to information disclosure but instead apply the principle of disclosing material information about its activities even if the publication of such information is not expressly required by law.

The Code as well as best practices among Russian and foreign companies call for information disclosure that encompasses such main elements as:

- **a corporate information policy** that allocates functions related to information disclosure and interaction with shareholders, investors, analysts and other stakeholders;

<sup>21</sup> These include the COSO integrated concept for building an internal control system; the Organisational Risk Management. Integrated Model concept; the Treadway Commission Sponsor Organisations Committee; the International ISO 31000 Standard "Risk Management. Principles and Guidelines"; and the International ISO 31010 Standard "Risk Management. Risk Evaluation Techniques".

<sup>22</sup> In particular, International Standards for the Professional Practice of Internal Auditing of the Institute of Internal Auditors.



### **Tim Clough**

Partner, Technology and Risk Assurance Leader, PwC Russia

*Globally, technology is accelerating the pace of innovation, as well as the flow of information and ideas, while simultaneously serving to strengthen relationships and expand innovation-driven processes to include customers and suppliers. Russia is not immune to these global mega-trends and with the country's proud history of scientific and technological advancement, it boasts a solid foundation of educated and vibrant talent to tap into and take full advantage of these seismic shifts. Substantial opportunities exist within Russia for local and foreign investors to leverage technology to disrupt existing business models and change perceptions.*

- **a corporate website** that should be easy to navigate and contains current, complete and well-structured information (including in English);
- **an annual report**;
- information concerning **corporate social responsibility and sustainability** within a separate report or as part of an integrated annual report;
- regular **presentations and meetings** of members of the company's executive bodies and other key company executives with financial analysts.

### **Reporting on a company's corporate governance practices**

According to the Code, companies should disclose information about their corporate governance system and practices, including detailed information on observing the principles and recommendations set forth in the Code itself. Comprehensive and unbiased disclosure of information about corporate governance practices is essential to building and maintaining sustainable, trust-based relationships with shareholders, investors and other stakeholders (partners, customers, suppliers, the general public, market regulators, and the government). Furthermore, in the long term this helps enhance the company's value and eases the essential task of raising additional capital.

### **Material corporate actions**

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

- reorganisation;

- 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 for protecting shareholder rights in the context 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 BoD should play a key role in passing resolutions or making recommendations relating to material corporate actions; for this purpose, it should rely on the opinions of the company's independent directors;
- the company should have a procedure in place for taking any material corporate actions that would enable its shareholders to receive full information about such actions in due time and to influence them, and that would also guarantee that shareholder rights are observed and duly protected in the course of taking such actions;
- the company's rules and procedures for its material corporate actions should be set forth in its bylaws;
- when disclosing information about material corporate actions, it is recommended that a company provide explanations of the reasons for, conditions, and consequences of such actions..



# PwC Russia

## About PwC

- a global network with member firms in 157 countries
- one of the world's leading employers of highly skilled professionals with more than 195,000 staff working at member firms worldwide
- the world's largest network of professional services firms 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

- More than 2,500 professionals work at 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.
- 92 partners: 77 Russian citizens and 15 citizens of other countries
- 44% of our partners are women
- more than 1,350 accountants and auditors
- more than 600 tax and legal consultants
- more than 500 consultants in the areas of investment, corporate finance and business advisory services

## Our thoughtleaderships

PwC regularly publishes research on issues relevant to the Russian and international business communities. Our research surveys and publications include:

- Anti-Bribery and Corruption Index (ABCI) in Russia
- APEC CEO Survey (Russian edition)
- Data-Driven Cities
- Emerging 7 Cities Report: From Moscow to São Paulo
- Emerging Trends in Real Estate® Europe
- Global Entertainment and Media Outlook (Russian edition)
- Global FinTech Report
- In-House Legal Function Benchmarking Survey
- MoneyTree: Overview of Russian Venture Capital Deals
- Private and Family Business in Russia
- PwC CEO Survey (Russian edition)
- PwC Saratoga Review on human capital measurement and HR benchmarking
- Risk in Review
- Russia's Protracted Recession: How Consumers and Businesses are Coping
- Russia's Real Estate Market
- Russian Boards Survey
- Russian Economic Crime Survey
- Russian Passenger Car and Commercial Vehicle Market
- Salary Survey PwC PayWell in Russia
- State of the Internal Audit Profession Study
- Tech Breakthroughs Megatrend: How to Prepare for its Impact
- The Cost of Car Ownership in Russia
- The Eight Attributes. Delivering Internal Audit Excellence as Stakeholders Expect More
- The Global State of Information Security Survey
- Top Management Compensation Survey
- Total Retail
- Treasury Survey (Russian edition)

## Corporate responsibility

Our Corporate Responsibility (CR) programme is a key factor in our successful development on the Russian market. Our goal is to integrate our various CR initiatives ever further into our business and our decision-making processes. In so doing, we hope to increase 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 to be 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 the 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.

Some of the most important components of PwC's Corporate Responsibility Programme are ensuring compliance with regulatory requirements for payment of taxes, levies and mandatory contributions to extra-budgetary insurance funds, and adhering to fair business practices and demonstrating good faith and responsibility in all of our business relationships.

### ***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-level projects, such as:***

- St Petersburg International Economic Forum (SPIEF) – eight years as Knowledge Partner™;
- PwC is a partner of the annual rating of Leaders in Corporate Philanthropy among Russia's top companies, together with Vedomosti business daily and the Donors' Forum organisation;
- PwC is the organiser of the annual Russian Boards Forum and is partner and member of the Expert Board for the national CEO of the Year award. For several years, we have supported the Chartered Director certification programme of the British Institute of Directors and of the Independent Directors Association.
- Mariinsky Easter Festival – six-year partnership;
- Making a difference – we cooperate with over 30 top universities across Russia;

- 9 university students were awarded PwC Russia scholarships in 2016;
- Over 470 undergraduate and graduate students joined PwC as interns or full-time employees across Russia in 2016
- We support over 20 charitable organisations in Russia;
- PwC employees devoted over 2,500 hours to volunteering in 2016
- Over 25 projects were carried out under our corporate philanthropy programme in 2016.

## Our services

### **Assurance**

- Financial Statements Audit
- Accounting Advisory Services
- Capital Markets
- Corporate governance
- Corporate social responsibility and sustainability
- Enterprise risk management
- Business continuity and resilience
- Business processes and controls
- Internal audit
- Technology risk
- Information security
- Corporate treasury and commodities
- Data assurance
- Project / quality assurance
- Third party assurance
- Food supply and integrity

### **Consulting**

- Finance consulting
- Technology
- Portfolio and Programme Management
- Forensic services

### **Deals**

- Transaction services
- Valuation & Economics
- Merges & Acquisitions
- Infrastructure & Debt advisory

### **Tax Services**

- Tax function effectiveness
- International taxation
- Automated tax accounting
- Tax aspects of mergers and acquisitions and capital market transactions
- Transfer pricing
- Indirect taxation
- Customs
- Taxation of individuals
- Making use of regional tax reliefs and special tax regimes
- Tax monitoring and relationship with tax authorities
- Tax reporting for Russian companies and foreign representative offices

### **Legal Services**

- Antitrust practice
- Banking & Finance Law
- Business Set-Up and Corporate Secretarial Services
- Commercial Law
- Corporate & M&A
- Public-private partnership
- Private Wealth Services
- Environmental law
- Employment Law
- Immigration Law
- Legal management consulting services
- Intellectual property & Technology
- Tax Dispute Resolution
- Real estate & Constructiong

### **Human Resources**

- Legal management consulting services
- Intellectual property & Technology
- Tax Dispute Resolution
- Real estate & Constructiong



# Appendices

## Appendix A

### Main macroeconomic indicators for Russia in 2012–2016

	2012	2013	2014	2015	2016E
Gross domestic product (GDP), RUB bn at constant 2011 prices <sup>23</sup>	61,798	62,589	63,038	61,249	61,097
Average exchange rate, USD 1.00 / RUB <sup>24</sup>	30.37	31.84	38.40	60.97	67.48
Real GDP, % y-o-y <sup>23</sup>	3.4	1.3	0.7	-2.8	-0.2
Fixed capital investments, % y-o-y <sup>24</sup>	6.8	-0.2	-2.5	-8.4	-3.7
Inflation rate, % y-o-y <sup>23</sup>	6.6	6.5	11.4	12.9	5.4
Volume of industrial production, % y-o-y <sup>24</sup>	3.4	0.4	1.7	-3.4	-0.4
	2012	2013	2014	2015	Q3 2016
International reserves, end of year, USD billion <sup>25</sup>	61,798	62,589	63,031	60,682	60,318
Foreign trade, USD billion <sup>25</sup>	30.37	31.84	38.40	60.97	67.48
Foreign Direct Investments, USD billion <sup>25</sup>	3.4	1.3	0.7	-3.7	-0.6
Net outflows of capital, USD billion <sup>25</sup>	6.8	-0.2	-2.5	-8.4	-3.7

**Source:**

<sup>23</sup> Russian Federal State Statistics Service

<sup>24</sup> Russian Federation Ministry of Economic Development

<sup>25</sup> Central Bank of the Russian Federation

## Appendix B

### Tax rates

Corporate income tax rates	<ul style="list-style-type: none"> <li>• 20% is the standard rate (may be reduced under a range of incentives)</li> <li>• 13% or 0% are the tax rates on dividend income</li> <li>• 15%, 9% or 0% are the tax rates on interest income on government securities (depending on the type of securities)</li> <li>• 0% on capital gains from sales of shares in Russian companies (in selected cases and subject to a five-year holding period).</li> </ul>
Tax depreciation rates	<p>The straight-line and declining balance depreciation methods are used. For the purposes of the straight-line method, the useful lives of assets are established in the Classification of Fixed Assets, which is approved by the Russian Government. Accelerated depreciation is available for leased assets and some other types of assets.</p> <p>30% and 10% depreciation premiums (lump-sum deductions) are available in the month when depreciation begins (which are to be clawed back if the asset is sold within five years after claiming the premium).</p>
Withholding taxes	<ul style="list-style-type: none"> <li>• 15% on dividends and income from participation in Russian enterprises with foreign investments</li> <li>• 10% on international freight income</li> <li>• 20% on certain other income from Russian sources, including royalties and interest</li> <li>• 20% of revenue or 20% of margin with respect to capital gains (for sales of immovable property located in Russia or shares in Russian subsidiaries in which immovable property located in Russia accounts for more than 50% of assets). Taxation of margin (rather than the entire amount of revenue received from such sales) can be applied only if expenses are properly documented. The gain is not taxable if the shares are listed.</li> </ul>
Property tax	<p>Starting from 2015 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 tax rates may vary from 0,1% up to 2%.</p>
Personal income tax	<p><b>For residents:</b></p> <ul style="list-style-type: none"> <li>• 13% standard rate (applied to the worldwide income of an individual);</li> <li>• 13% for dividend income;</li> <li>• 35% for specific types of income (material benefits on loans and other specific types of income, prizes, etc.).</li> </ul> <p><b>For non-residents:</b></p> <ul style="list-style-type: none"> <li>• 30% standard rate (applied to income received from Russian sources);</li> <li>• 13% for income received by foreign nationals working as highly qualified specialists;</li> <li>• 15% for dividend income.</li> </ul>
Personal allowances (and/or credits)	<p><b>Main exemptions:</b></p> <ul style="list-style-type: none"> <li>• Charitable contributions;</li> <li>• Social expenses: e.g., education expenses, including those for children, medical expenses with the exception of expensive treatments (up to RUB 120,000 (approx. USD 2,000));</li> <li>• Income from the sale of immovable and other property held for five years or more;</li> <li>• Income from the sale of immovable property and land plots held for less than five years in the amount of RUB 1 million (approx. USD 16,000), or documented expenses;</li> <li>• Income from the sale of other property held for less than three years in the amount of RUB 250,000 (approx. USD 4,000), or documented expenses;</li> <li>• Income spent on the construction or purchase of premises or land acquired for the purpose of building a house (maximum RUB 2 million; approx. USD 32,000) plus related interest payments (maximum RUB 3 million; approx. USD 48,000). All objects should be in Russia. This deduction may be granted only once in a lifetime.</li> <li>• Income from the sale of securities and derivatives in the amount of documented expenses..</li> </ul>
Tax on foreign nationals working in Russia	<p>No special tax on foreign nationals working in Russia</p>
Wealth tax	<p>None</p>
Estate and/or inheritance and/or gift tax rates	<p>Gifts in certain cases are subject to personal income tax.</p>
Capital tax	<p>None</p>
Indirect taxes	<p><b>Value added tax</b></p> <ul style="list-style-type: none"> <li>• 18% standard rate;</li> <li>• 10% rate applicable to the sale of some types of goods (basic food products, medicines, etc.);</li> <li>• 0% rate for export sales, international transportation of goods and other certain transactions;</li> <li>• VAT exemptions are granted for a number of specific transactions.</li> </ul> <p><b>Excise tax</b></p> <p>Excise tax is imposed on alcohol and tobacco products, petrol, automobiles and motorcycles. The rates depend on the type of excisable goods.</p>

## Appendix C

### The list of the WHT rates mentioned in treaties

Recipient	WHT (%)			Construction site duration before creation of PE (months)
	Dividends	Interest	Royalties	
Albania/Russia	10	10	10	12
Algeria/Russia	5 (2)/15	0/15	15	6 months and an aggregated period of more than 3 months in any 12-month period for furnishing services
Argentina/Russia	10 (2)/15	0/15	15	6
Armenia/Russia	5 (3)/10	0	0	12
Australia/Russia	5 (4)/15	10	10	12
Austria/Russia	5 (5)/15	0	0	12
Azerbaijan/Russia	10	0/10	10	12
Belarus/Russia	15	0/10	10	No special provisions in the relevant DTT; local tax legislation provisions should apply
Belgium/Russia	10	0/10	0	12
Botswana/Russia	5 (2)/10	0/10	10	6
Bulgaria/Russia	15	0/15	15	12
Canada/Russia	10 (6)/15	0/10	0 (7)/10	12
Chile/Russia	5 (2)/10	15	5 (8)/10	6
China/Russia (9)	5 (10)/10	0	6	18
Croatia/Russia	5 (11)/10	10	10	12
Cuba/Russia	5 (12)/15	0/10	5	12
Cyprus/Russia	5 (13)/10	0	0	12
Czech Republic/Russia	10	0	10	12 months and an aggregated period of more than 6 months in any 12-month period for furnishing services
Denmark/Russia	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	10	0/15	15	6 months and an aggregated period of more than 6 months in any 12-month period for furnishing services
Finland/Russia	5 (14)/12	0	0	12 months and an 18-month period for particular types of construction work
France/Russia	5 (15)/10 (16)/15	0	0	12
Germany/Russia	5 (17)/15	0	0	12
Greece/Russia	5 (12)/10	7	7	9
Hong Kong/Russia	0 (18) /5 (19)/10	0	3	12
Hungary/Russia	10	0	0	12

Recipient	WHT (%)			Construction site duration before creation of PE (months)
	Dividends	Interest	Royalties	
Indonesia/Russia	15	0/15	15	3
Iran/Russia	5 (12)/10	0 or 7.5	5	12
Ireland/Russia	10	0	0	12
Israel/Russia	10	0/10	10	12
Italy/Russia	5 (21)/10	10	0	12
Japan/USSR	15	0/10	0 (22)/10	12
Kazakhstan/Russia	10	0/10	10	12
North Korea/Russia	10	0	0	12 months and an aggregated period of more than 6 months in any 12-month period for furnishing services
South Korea/Russia	5 (23)/10	0	5	12 (may be extended up to 24 months upon agreement with the competent authorities)
Kuwait/Russia	0 (18)/5	0	10	6 months and an aggregated period of more than 3 months in any 12-month period for furnishing services
Kyrgyzstan/Russia	10	0/10	10	12
Latvia/Russia	5 (24)/10	0/5 (25)/10	5	
Lebanon/Russia	10	0/5	5	12
Lithuania/Russia	5 (20)/10	0/10	5 (10)/10	9
Luxembourg/Russia	5 (26)/15	0	0	12
Macedonia/Russia	10	10	10	12
Malaysia/USSR	0/15 (27)	0/15	10 (28)/15 (29)	12 months and more than a 6-month period for installation or assembly projects
Mali/Russia	10 (30)/15	0/15	0	No special provisions in the relevant DTT; local tax legislation provisions should apply
Malta/Russia	5 (31)/10	5	5	12
Mexico/Russia	10	0/10	10	6
Moldova/Russia	10	0	10	12
Mongolia/Russia	10	0/10	rates in accordance with local legislation	24
Montenegro/Russia	5 (20)/15	10	10	18
Morocco/Russia	5 (32)/10	0/10	10	8
Namibia/Russia	5 (33)/10	0/10	5	9 months and more than a 6-month period for furnishing services and installation projects
Netherlands/Russia	5 (34)/15	0	0	12

Recipient	WHT (%)			Construction site duration before creation of PE (months)
	Dividends	Interest	Royalties	
Philippines/Russia	15	0/15	15	183 days and an aggregate period of more than 183 days in any 12-month period for furnishing services
Poland/Russia	10	0/10	10	12 (may be extended up to 24 months upon agreement with the competent authorities)
Portugal/Russia	10 (35)/15	0/10	10	12
Qatar/Russia	5	0/5	0	6
Romania/Russia	15	0/15	10	12
Saudi Arabia/Russia	0 (18)/5	0/5	10	6 months and an aggregated period of more than 6 months in any 12-month period for furnishing services
Serbia/Russia	5 (20)/15	10	10	18
Singapore/Russia	0/5 (36)/10	0	5	12
Slovakia/Russia	10	0	10	12
Slovenia/Russia	10	10	10	12
South Africa/Russia	10 (37)/15	0/10	0	12
Spain/Russia	5 (38)/10 (39) /15	0/5	5	12
Sri Lanka/Russia	10 (12)/15	0/10	10	6 months and an aggregated period of more than 183 days in any 12-month period for furnishing services
Sweden/Russia	5 (40)/15	0	0	12
Switzerland/Russia	5 (41)/15	0	0	12
Syria/Russia	15	0/10	4.5 (42) /13.5 (43)/18 (44)	6
Tajikistan/Russia	5 (2)/10	0/10	0	24 (may be extended on agreement with the competent authorities)
Thailand/Russia	15	0/10	15	6 months and an aggregated period of more than 3 months in any 12-month period for furnishing services
Turkey/Russia	10	0/10	10	18
Turkmenistan/Russia	10	5	5	12
Ukraine/Russia	5 (45)/15	0/10	10	12
United Kingdom/Russia	10	0	0	12
United States/Russia	5 (6)/10	0	0	18
Uzbekistan/Russia	10	0/10	0	12
Venezuela/Russia	10 (5)/15	0/5 (46)/10	10 (47)/15	9
Vietnam/Russia	10 (48)/15	10	15	6 months and more than a 12-month period for furnishing services

Information is provided for reference purposes. Please review the relevant DTT for full information.

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

1. In most cases, a 0% tax rate applies to interest payments to the governments of contracting states and to payments guaranteed by the government.
2. If the beneficial owner of the dividends holds directly at least 25% of the capital of the company paying the dividends.
3. If the resident of the other contracting state contributed at least 40,000 United States dollars (USD) (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 700,000 Australian dollars (AUD), or an equivalent amount in Russian rubles, 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 holds directly 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 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.
7. 0% WHT 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.
8. For the use of any industrial, commercial or scientific equipment.
9. The new treaty was ratified in January 2016. It will take effect from 2017, replacing the treaty of 27 May 1994.
10. 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 this holding amounts to at least 80,000 euro or its equivalent in any other currency.
11. If the beneficial owner of the dividends is a company that holds directly 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).
12. If the beneficial owner of the dividends is a company (excluding partnerships) that holds directly at least 25% of the capital of the company paying the dividends.
13. If the beneficial owner of the dividends has directly invested in the capital of the company not less than 100,000 euro 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 of the company paying the dividends, and the foreign capital invested exceeds USD 100,000 or its equivalent in the national currencies of the contracting states at the moment when the dividends become due and payable.
15. If the following conditions are met:
  - a. Where the beneficial owner of the dividends has invested in the company paying the dividends, irrespective of the form or the nature of such investments, a total value of at least 500,000 French francs (FF) 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 13 (a) or 13 (b) are met.
17. If the beneficial owner of the dividends is a company that holds directly at least 10% of the basic or common stock of the company paying the dividends and such capital share amounts to at least 80,000 euro or the equivalent value in rubles.
18. The 0% rate applies to dividends paid to governmental agencies or financial institutions.
19. If the beneficial owner of the dividends is a company (other than a partnership) which holds directly at least 15% of the capital of the company paying the dividends.
20. If the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends and the foreign capital invested exceeds USD 100,000 or its equivalent in the national currency of the contracting state.
21. If the beneficial owner of the dividends is a company that holds directly 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 holds directly 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. If the beneficial owner is a company (other than a partnership) which holds directly at least 25% of the capital of a company paying dividends, and the capital invested exceeds USD 75,000.
25. Applicable to interbank loans only.
26. If the beneficial owner of the dividends holds directly at least 10% of the capital in the company paying the dividends and the investment exceeds 80,000 euro or its equivalent in rubles.
27. The 15% rate applies to profits received from a joint venture by a resident of Malaysia.
28. 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.
29. Cinematograph films or tapes for radio or television broadcasting, any copyright of literary or artistic work.
30. If the invested amount equals or exceeds FF 1 million.
31. 5% where the participation interest is at least 20% (if the owner is not a partnership) and the investment exceeds 100,000 euro; 10% in all other cases.
32. If the beneficial owner of the dividends has invested in the capital of the company paying dividends of more than USD 500,000.
33. If the beneficial owner of the dividends is a company (other than a partnership) that directly holds at least 25% of the share capital of the company paying the dividends and has directly invested in the equity share capital of that company not less than the equivalent of USD 100,000.
34. If the beneficial owner of the dividends is a company (other than a partnership) that holds directly at least 25% of the capital of the company paying the dividends and has invested in it at least 75,000 European Currency Units (ECU) or its equivalent in the national currencies of the contracting states.
35. 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.
36. If the beneficial owner of the dividends is a company which holds directly at least 15% of the capital of the company paying the dividends.
37. 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.
38. 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 ECU 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.
39. If only one of the conditions of 37 (a) or 37 (b) are met.
40. 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.
41. 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 200,000 Swiss francs (CHF) or its equivalent in any other currency at the moment when the dividends become due.
42. Cinematography films, programmes, and recordings for radio or television broadcasting.
43. Any copyright of literary, artistic, or scientific work.
44. Any patent, trademark, design or model, plan, secret formula or process, any computer software programme, or for information concerning industrial, commercial, or scientific experience.
45. 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.
46. In the case of banks.
47. In the case of fees for technical assistance.
48. 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.

## Appendix D

### International agreements

In recent years, Asian countries have become Russia's main partners in global trade. In 2015-2016, this trend continued as Russia's relations with leading Asian countries, particularly China and India, have strengthened.

Russia and China signed 30 cooperation agreements on 25 June 2016, which cover trade, infrastructure, technology, agriculture, the financial sector and energy. Major recent Sino-Russian deals have included the following:

- CNPC and Gazprom have signed a memorandum on power generation and gas storage ventures.
- Rosneft and Sinopec have signed an agreement to conduct a feasibility study for a petrochemical facility in Siberia.
- China has renewed an agreement for the early repayment of a loan issued for financing the construction of a nuclear power plant.
- The State Grid Corporation of China and Russian power grid company Rosseti have signed a joint venture agreement.
- Rostelcom and Huawei have signed a cooperation agreement for the construction of an underwater fibre optic line that will connect Sakhalin and Kamchatka.
- The Central Bank of Russia and China's securities regulator have signed a cooperation agreement (memorandum of understanding) and approved a plan for developing joint insurance operations in 2016-2018.<sup>26</sup>
- Russian and Chinese firms have signed an agreement for producing high-speed trains. The companies involved are Russian Railways, Russian investment company Sinara Group, China Railway, and the Chinese state-owned rolling stock manufacturer CRRC.<sup>27</sup>

On 15 October 2016, India and Russia signed 16 agreements at an annual bilateral summit in India. The deals concluded cover a range of sectors, from defence to energy. Some of these projects include:

- Agreement for establishing a joint venture to manufacture Ka-226T helicopters in India, signed by Russian Helicopters, Rosoboronexport and Hindustan Aeronautics Ltd.<sup>28</sup>
- Memorandum of understanding between Gazprom and Engineers India Ltd. for a joint study of a gas pipeline to India.<sup>29</sup>
- Rosneft and a consortium of Indian companies (Oil India Ltd., Indian Oil Corporation Ltd. and Bharat PetroResources) have signed an agreement for the purchase and sale of a 23.9% stake in Vankorneft.<sup>30</sup>
- Rosneft and Oil India, Indian Oil and Bharat PetroResources have signed a legally binding share sale agreement for a 29.9% stake in LLC Taas-Yuryakh Neftegasodobycha.<sup>31</sup>

In addition to agreements with Asian partners, Russia has been developing economic relations with a number of other countries. The relevant major deals are highlighted below.

UK-based BP and Rosneft have formed a joint venture called Yermak Neftegaz, which will conduct hydrocarbon exploration operations in western Siberia, including regional studies, seismic data acquisition and well drilling.<sup>32</sup>

Rostec and the Mongolian Copper Corporation LLC have signed an agreement for the sale of a 49% stake owned by several Russian-Mongolian mining joint ventures (Erdenet and Mongolrostsvetmet) to Mongolian Copper Corporation.<sup>33</sup>

Anglo-Dutch global oil major Shell and Gazprom have signed a memorandum of understanding on the Baltic LNG project in follow-up up to their existing strategic cooperation agreement.<sup>34</sup>

AO NOVATEK and Germany-based Linde AG have entered into cooperation to localise the construction of process modules and related sourcing of equipment in Russia for NOVATEK's LNG projects.<sup>35</sup>

<sup>26</sup> [http://rbth.com/international/2016/06/27/russia-china-sign-30-cooperation-agreements\\_606505](http://rbth.com/international/2016/06/27/russia-china-sign-30-cooperation-agreements_606505)

<sup>27</sup> <https://www.rt.com/business/348564-russia-china-trains-venture/>

<sup>28</sup> <http://rostec.ru/en/news/4519199>

<sup>29</sup> [http://mea.gov.in/bilateraldocuments.htm?dtl/27481/List\\_of\\_agreementsMOUs\\_exchanged\\_during\\_IndiaRussia\\_Annual\\_Summit\\_October\\_15\\_2016](http://mea.gov.in/bilateraldocuments.htm?dtl/27481/List_of_agreementsMOUs_exchanged_during_IndiaRussia_Annual_Summit_October_15_2016)

<sup>30</sup> <https://www.rosneft.com/press/releases/item/182657/>

<sup>31</sup> [https://www.rosneft.com/upload/site2/document\\_cons\\_report/2015\\_Rosneft\\_FS\\_IFRS\\_ENG\\_SIGNED.pdf](https://www.rosneft.com/upload/site2/document_cons_report/2015_Rosneft_FS_IFRS_ENG_SIGNED.pdf)

<sup>32</sup> <http://thebarentsobserver.com/en/2016/11/bp-makes-return-russian-arctic>

<sup>33</sup> <http://rostec.ru/en/news/4518501>

<sup>34</sup> <http://www.gazprom.com/press/news/2016/june/article276698/>

<sup>35</sup> [http://www.novatek.ru/en/press/releases/index.php?id\\_4=1236](http://www.novatek.ru/en/press/releases/index.php?id_4=1236)

## Appendix E

### List of countries with which Russia has concluded free trade agreements



- Armenia
- Azerbaijan
- Belarus
- Georgia
- Kazakhstan
- Kyrgyzstan
- Moldova
- Montenegro
- Serbia
- Tajikistan
- Turkmenistan
- Uzbekistan
- Ukraine (suspended since January 2016)
- Vietnam

## Appendix F

### Russia's membership in international organisations

#### General

- United Nations Security Council
- G20
- Council of Europe
- Organisation for Security and Cooperation in Europe (OSCE)
- Arctic Council
- Commonwealth of Independent States (CIS)
- 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
- 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
- Hague Conference on Private International Law (HCCH)

## Appendix G

### Useful sources of information

#### Government resources

[www.kremlin.ru](http://www.kremlin.ru) – official website of the president of the Russian Federation  
[www.gov.ru](http://www.gov.ru) – official Russian government portal (in Russian)  
[www.duma.ru](http://www.duma.ru) – official website of the Russian State Duma (lower house of parliament) (in Russian)  
[www.council.gov.ru](http://www.council.gov.ru) – official website of the Federation Council (upper house of parliament)  
[www.cbr.ru](http://www.cbr.ru) – Central Bank of Russia  
[www.economy.gov.ru](http://www.economy.gov.ru) – Russian Federation Ministry of Economic Development

#### Other

[www.waytorussia.net](http://www.waytorussia.net) – independent guide to Russia  
[http://news.bbc.co.uk/2/hi/europe/country\\_profiles/1102275.stm](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](http://www.amcham.ru) – American Chamber of Commerce in Russia  
[www.rbcc.com](http://www.rbcc.com) – Russo-British Chamber of Commerce  
[www.aebus.ru](http://www.aebus.ru) – Association of European Businesses  
[www.rspp.ru](http://www.rspp.ru) – Russian Union of Industrialists and Entrepreneurs  
[www.tpprf.ru](http://www.tpprf.ru) – Russian Chamber of Commerce and Industry



## Contacts



Igor Lotakov  
 Managing Partner, PwC Russia  
[igor.lotakov@ru.pwc.com](mailto:igor.lotakov@ru.pwc.com)



Ekaterina Lazorina  
 Partner, Russia and CIS Tax and  
 Legal Services Practice Leader,  
 PwC Russia  
[ekaterina.lazorina@ru.pwc.com](mailto:ekaterina.lazorina@ru.pwc.com)



Mikhail Magrilov  
 Partner, Advisory Services  
 Practice Leader, PwC Russia  
[mikhail.magrilov@ru.pwc.com](mailto:mikhail.magrilov@ru.pwc.com)



Jason Wardell  
 Partner, Assurance Services  
 Practice Leader, PwC Russia  
[jason.wardell@ru.pwc.com](mailto:jason.wardell@ru.pwc.com)



Yana Zoloeva  
 Managing Partner,  
 PwC Legal CEE  
[yana.zoloeva@ru.pwc.com](mailto:yana.zoloeva@ru.pwc.com)



Tim Clough  
 Partner, Technology and Risk  
 Assurance Leader, PwC Russia  
[tim.clough@ru.pwc.com](mailto:tim.clough@ru.pwc.com)



Denis Gorin  
 Partner, Metals & Mining  
 Practice Leader, PwC Russia  
[denis.gorin@ru.pwc.com](mailto:denis.gorin@ru.pwc.com)



Dmitry Kovalev  
 Partner, Capital Projects &  
 Infrastructure Practice Leader,  
 PwC Russia  
[dmitry.kovalev@ru.pwc.com](mailto:dmitry.kovalev@ru.pwc.com)



Natalia Mileshkina  
 Partner, Financial Services  
 Practice Leader, PwC Russia  
[natalia.mileshkina@ru.pwc.com](mailto:natalia.mileshkina@ru.pwc.com)



Kirill Nikitin  
 Partner, Government and Public  
 Sector Services Practice Leader,  
 PwC Russia  
[kirill.nikitin@ru.pwc.com](mailto:kirill.nikitin@ru.pwc.com)



Olaf Preller  
 Partner, Head of Foreign Desks,  
 PwC Russia  
[olaf.preller@ru.pwc.com](mailto:olaf.preller@ru.pwc.com)



Yury Pukha  
 Partner, Technology,  
 Communications, Entertainment &  
 Media Sector Leader, PwC Russia  
[yury.pukha@ru.pwc.com](mailto:yury.pukha@ru.pwc.com)



Maxim Timchenko  
 Partner, Russia and CEE  
 Oil & Gas Practice Leader,  
 PwC Russia  
[maxim.timchenko@ru.pwc.com](mailto:maxim.timchenko@ru.pwc.com)



Natalia Vozianova  
 Partner, Head of Asian Desks,  
 PwC Russia  
[natalia.vozianova@ru.pwc.com](mailto:natalia.vozianova@ru.pwc.com)

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

[www.pwc.ru](http://www.pwc.ru)

PwC refers to the PwC network and/or one or more of its member firms, each of which is a separate legal entity. Together, these firms form the PwC network, which includes over 195,000 employees in 157 countries. Please see [www.pwc.ru/en/about/structure.jhtml](http://www.pwc.ru/en/about/structure.jhtml) for further details.

© 2017 PricewaterhouseCoopers. All rights reserved.