



# Doing Business in Russia

Audit / Tax / Advisory

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# Welcome

## to Doing Business in Russia

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Doing Business in Russia has been prepared by the Crowe Global member firm in Russia in order to provide general information for persons planning to do business with or in the country concerned and/or individuals intending to live and work in Russia temporarily or permanently.

This Guide includes relevant information about business operations and taxation matters. It is intended to assist organizations that are considering establishing a business in Russia either as a separate entity or as a subsidiary of an existing foreign company. It will also be helpful to anyone planning to come to Russia to work and live here either on secondment or as a permanent life choice.

Unless noted otherwise, the information contained in this Guide is believed to be accurate as of 1 January 2020. However, general publications of this nature cannot be used and are not intended to be used as a substitute for professional guidance specific to the reader's particular circumstances.

*All lasting business is built on friendship.*

*Alfred A. Montapert*



## About Crowe Global

Crowe Global is ranked among the top 10 global accounting networks with more than 180 independent accounting and advisory services firms in about 140 countries around the world. Crowe Global's member firms are committed to impeccable quality service, highly integrated service delivery processes and a common set of core values that guide decisions daily.

Each firm is well-established as a leader in its national business community and is staffed by nationals, thereby providing the knowledge of local laws and customs which is important to clients undertaking new ventures or expanding into other countries. Crowe Global member firms are known for their personal service to privately and publicly held businesses in all sectors and have built an international reputation in the areas of audit, tax and advisory services.

## General information

Local currency, Exchange rate to EUR as of 01/06/2020 Russian ruble, 1 EUR= 78,5489 RUB

## Types of organization

### LLC

Name in local language	Общество с ограниченной ответственностью
Registrable in commercial register / legal entity	Yes/yes
Minimum capital	10 000 RUB (~127 EUR)
Minimal number of shareholders/ Maximum number of shareholders	1/50
Capital tax / Registration fees	No/state duty 4000 RUB (~51 EUR)
Written form/ notarization	Yes/yes
Registration with tax authorities	Yes
Statutory audit	No

### Public company (joint-stock company)

Name in local language	Акционерное общество
Registrable in commercial register / legal entity	Yes/yes
Minimum capital	Public joint-stock company – 100000 RUB (~1266 EUR), not a public joint stock company – 10000 RUB (~127 EUR)
Minimal number of shareholders/ Maximum number of shareholders	1/not limited
Capital tax / Registration fees	No/state duty 4000 RUB (~51 EUR)
Written form/ notarization	Yes/yes

Registration with tax authorities	Yes
Statutory audit	Yes

## Branch (permanent establishment)

Name in local language	Филиал (постоянное представительство)
Registrable in commercial register / legal entity	Branch – yes, permanent establishment – no/no
Minimum capital	No
Minimal number of shareholders/ Maximum number of shareholders	No/no
Capital tax / Registration fees	No/Branch – state duty 800 RUB (~10 EUR)
Written form/ notarization	Branch – yes, permanent establishment – no/Branch – yes, permanent establishment - no
Registration with tax authorities	Yes
Statutory audit	Only if the legal entity itself is a subject of Statutory audit

## Value added tax (VAT)

Tax rates	<p>The main VAT rates are as follows.</p> <p>Standart tax rate: <b>20%</b> (sales of goods, works or services on Russian territory are taxable at a VAT rate of 20%)</p> <p><b>10%</b> - applies to the sale of certain types of medical goods, books and periodicals, foods and children's goods (in accordance with a list of goods provided by the Government of the Russian Federation).</p> <p>The sale of certain types of goods, work and services is subject to a <b>zero percent</b> VAT rate. The zero percent VAT rate applies, inter alia, to: export sales; international transportation services and related freight forwarding services; transportation and the rendering of certain services related to the transportation of oil, oil products, natural gas and electricity power outside Russia; certain types of air transportation; certain services rendered at river and sea ports; and certain services rendered by Russian railway carriers in relation to the international transportation of goods.</p>
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Supply of goods	<p>The sale of goods, work, and services, provided that the sales take place on the territory of the Russian Federation, including the free-of-charge supply of goods and the transfer of property rights;</p> <p>The transfer of goods, work, and services for the taxpayer's own needs if the expenses incurred are non-deductible when it comes to profits tax (including depreciation charges);</p> <p>Construction and assembly work carried out by the taxpayer for its own purposes;</p> <p>The import of goods into Russia and to other territories under Russian jurisdiction</p>
Supply of services	<p>The legislation of the Eurasian Economic Union between Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan (the EEU) creates a single customs territory between the member states. EEU legislation establishes special VAT rules on transactions between entities in the different member states of the EEU. The export of goods from one member state to another is subject to a zero-percent VAT rate. Application of the zero-percent VAT rate by a taxpayer must be supported by possession and provision of the relevant documents, including documents showing the taxpayer's application to import the goods and that the import VAT has been paid. The documents should be stamped by the tax authority of the member state into which the goods were imported. The import of goods from one member state to another is subject to import VAT in the other member state. A taxpayer is obliged to submit a separate VAT return with respect to the import of goods from the other EEU country.</p> <p>If foreign companies that are not registered with the Russian tax authorities supply goods, work or services in Russia, and these supplies are deemed to have taken place in Russia in accordance with the 'place of supply' rule, the buyer (tax-registered in Russia) is required to calculate the amount of Russian VAT, withhold this VAT from the amount of fee payable to the foreign supplier, and remit that VAT to the Russian federal budget on behalf of the foreign company.</p>
Special provisions (exemptions to the general rule)	

	<p>It is applied in the following cases:</p> <ul style="list-style-type: none"> <li>• Upon the sale of goods (works, services), the place of sale of which is the territory of the Russian Federation, by taxpayers - by foreign persons who are not registered with the tax authorities as taxpayers;</li> <li>• When leasing federal property, property of the constituent entities of the Russian Federation and municipal property on the territory of the Russian Federation by state authorities and administration, local authorities;</li> <li>• When selling (transferring) on the territory of the Russian Federation state property that is not assigned to state enterprises and institutions, which constitutes the state treasury of the Russian Federation, the treasury of the republic as part of the Russian Federation, treasury of the krai, oblast, city of federal significance, autonomous oblast, autonomous okrug, and municipal property not assigned to municipal enterprises and institutions, constituting the municipal treasury of the corresponding city, rural settlement or other municipal formation;</li> <li>• Upon sale in the territory of the Russian Federation by taxpayers (with the exception of taxpayers exempted from taxpayer duties related to the calculation and payment of tax) of raw animal skins, scrap and waste of ferrous and non-ferrous metals, secondary aluminum and its alloys, as well as waste paper</li> </ul>
Reverse charge on local supplies	<p>For VAT purposes, the import of services will be recognized as the provision of services by a foreign company, the place of sale of which is recognized by the territory of the Russian Federation (mainly such services include consulting, legal, accounting, auditing, engineering, advertising, marketing services, information processing services)</p>
Import of services	<p>VAT is refundable subject to the following conditions:</p> <ul style="list-style-type: none"> <li>• A tax return for refund was submitted to the inspection;</li> <li>• The declaration was filed within a three-year term;</li> <li>• Along with the declaration, the necessary documents were provided;</li> <li>• All conditions for deductions were met;</li> <li>• The inspection conducted a desk audit of the VAT return and confirmed the amount of VAT for refund in whole or in part.</li> </ul> <p>It is possible to exercise the right to VAT refund declared in the return within three years after the end of the quarter in which the amount of VAT deductions exceeded the calculated tax</p>
Deadline and conditions for VAT refund	

	<p>Certain activity types are exempt from VAT, in particular:</p> <ul style="list-style-type: none"> <li>• Leasing premises located in Russia to foreign individuals and foreign entities accredited in Russia (if there are reciprocity rules applying in the respective foreign jurisdiction);</li> <li>• Selling residential real estate, certain medical goods, medical services, foods produced by school cafeterias, public conveyance services on specific types of transport, ceremonial services, supply of religious goods, educational services rendered by licensed nonprofit educational institutions, certain services in the sphere of art and culture, etc.;</li> <li>• Repair and technical maintenance services rendered free of additional charge within the warranty period of the goods (including the value of spare parts related to these goods);</li> <li>• Banking operations and insurance services;</li> <li>• REPO operations;</li> <li>• The transfer of certain types of intellectual property (IP) rights or the transfer of rights allowing for IP to be used on the basis of a licence agreement;</li> <li>• Surety (guarantee) services provided by a taxpayer other than a bank.</li> </ul>
Major Tax exemptions	<p>The Russian Tax Code provides for certain types of VAT exemption, in particular, exemptions related to financial and social welfare services</p>
Real Estate	<p>Renting of immovable property is subject to VAT. Residential property sales are not subject to VAT. Sale of non-residential property without prepayment is subject to VAT at a rate of 20%</p>
Foreign taxable persons (VAT registration)	<p>Foreign legal entities with more than one representative office and/or branch registered in various locations in Russia may consolidate all VAT accruals and offsets on a company level. For that purpose, a foreign legal entity must choose a particular representative office or branch to be responsible for VAT reporting on a company level and notify the local tax authorities responsible for each representative office and branch registered in Russia of its decision.</p> <p>A foreign company that is registered for tax purposes in Russia, including as a result of having a representative office in Russia or a Russian bank account, must pay Russian VAT on its transactions that are subject to VAT to Russian customers. In such case, a Russian company is not obliged to act as a tax agent or to withhold or pay VAT for services rendered by the foreign company. Based on the position of the Russian Ministry of Finance, the obligation to pay VAT must be performed by the foreign company and there is no option for the parties to agree on who will perform the VAT payment.</p> <p>Foreign companies and their foreign intermediaries providing electronic services to Russian companies and individual entrepreneurs are required to tax register in Russia, and collect, report and pay VAT on sales to such Russian customers.</p>

## Corporate tax

Accounting rules	The Tax Code requires taxpayers (including permanent establishments) to maintain separate accounts for profits tax purposes. Tax accounting rules differ from Russian statutory accounting principles (e.g. with regard to depreciation, recognition of interest expenses, etc.)
Tax rate	The maximum profits tax rate is 20%, comprising 3% paid to the Federal budget and 17% to the regional budget. But for certain types of activities and income, a reduced tax rate or 0% rate may apply.
Tax base	Taxable profit is calculated as income minus the expenses recorded in the tax accounts. Income is generally determined on an accrual basis. Expenses are deductible if they are incurred to generate income, are economically justified, and are properly documented. There are some expenses specifically mentioned in the Tax Code that are also treated as non-deductible.
Tax assessment period	Corporate tax period is a calendar year. The tax period for corporate tax consists of several reporting periods, according to the results of which advance payments for corporate tax are paid
Loss set-offs/ carry forwards	The losses of past years can be transferred to the future and taken into account when calculating corporate tax in the following periods. In order to reduce the tax base for loss of previous years, it is necessary to subtract from it the amount of loss (part of loss) of previous periods, reflecting this in the corporate tax return. There are restrictions on accounting for losses in the tax base for corporate tax. The main one is for the periods from January 1, 2017 to December 31, 2021 the tax base can be reduced by no more than 50%. The transfer of losses to the future must be carried out in the order in which these losses occurred. Starting from 1 January 2020, there is a limitation on the recognition of losses of the merged companies. In case the main purpose of the reorganization is to reduce the tax base of the legal successor by the amount of losses incurred by the reorganized organizations, such losses may not be carried forward.
Tax/ accounting depreciation	There are four depreciation methods in accounting, two in tax accounting. The simplest of them and the same for two types of accounting - linear depreciation method. Depreciation in accounting and tax accounting may differ by the amount of the depreciation premium. Depreciation premium is a one-time write-off of the initial cost of depreciable property or the cost of its modernization. The maximum premium size is limited. In accounting, the depreciation premium is not charged.

**Tax deductibility of interest, Excessive interest rate rule, Thin capitalization rule**

Thin capitalization rules, revised as of 1 January 2017, apply to Russian companies with respect to the following loans:

From a foreign-related party, i.e., an individual or a company (previously only loans from corporations counted): (i) that owns directly or indirectly (via other companies) 25% or more of a Russian borrower (previously 20%); or (ii) that owns more than 50% consecutively in each preceding company in a direct holding chain of a Russian borrower ("Foreign Participant").

From a person (either foreign or Russian) related to the Foreign Participant (including direct or indirect participants, subsidiaries and sister companies) ("Related Person").

From any other persons if the debt is guaranteed or otherwise secured by any person mentioned under the previous two categories. The court may also consider other debts as controlled debts if it is proven that the payment was effectively transferred to persons covered by one of the above categories.

The Tax Code introduces a 12.5:1 debt-to-equity ratio limit for banks and leasing companies and a 3:1 debt-to-equity ratio limit for all other companies. Interest on debt in excess of the limitation is non-deductible, and is also deemed to be a dividend payment to the foreign shareholder, and is subject to a 15% withholding tax, unless the latter is reduced by an applicable tax treaty. The limitation is recalculated at the end of each quarter.

Starting on 1 January 2017, the following two additional exemptions from the controlled debt definition have been introduced:

- Loans from a Russian related person, provided that such person does not have a comparable (based on amount and term) loan from a Foreign Participant or its Related Person; and
- Loans from foreign special purpose vehicles – issuers of eurobonds that are residents in tax treaty countries.

Starting from 1st January 2019, an intercompany loan is not counted as controlled debt, if: (i) the loan funds an investment project in Russia; (ii) there are no payments under the loan for at least five years; (iii) the lender owns directly or indirectly 35% or less shares (participation interest) in the Russian borrower; and (iv) the foreign lender is incorporated (tax resident) in a tax treaty jurisdiction. The investment project is considered a construction of new (put in operation after 1st January 2019) production facilities in Russia for the production of goods (provision of services).

Reserves for bad debts, leaves, etc.

A company can create a reserve for bad debts to gradually write off bad debts of counterparties. The creation of such a reserve is a right, not an obligation. The procedure for creating a reserve for doubtful debts must be fixed in the accounting policy. Bad debt is any debt that simultaneously:

- 1) arose in connection with the sale of goods (performance of work, provision of services);
- 2) is not repaid within the terms established by the contract;
- 3) is not secured by pledge, guarantee, bank guarantee.

The size of the reserve is determined on the last day of the reporting (tax) period based on the inventory of receivables.

In tax accounting, in addition to the reserve for bad debts, taxpayers have the right to create reserves for vacation pay, for the repair of fixed assets, for warranty repairs and for research and development.

Transfer pricing,  
Related parties

Russian TP rules require taxpayers to notify the tax authorities of controlled transactions that are performed in a given calendar year. Controlled transactions include any transactions between related parties (domestic or cross-border). Among other criteria, parties are considered related if one directly or indirectly owns more than 25% of another, or can control the formation of at least 50% of the board of directors or the executive body of such other party. The courts may also determine that parties are related if the relationship between the parties could affect the results of transactions between them or their economic activities even in the absence of the statutory criteria. In addition, the following transactions are subject to transfer pricing control, provided that the total revenues under these transactions exceed RUB 60 million in total in a given calendar year:

- Starting from 1 January 2019, cross-border transactions between related parties (prior to 1 January 2019, there was no threshold for such transactions);
- Cross-border transactions with oil and gas products, ferrous and non-ferrous metals, mineral fertilizers, precious metals, and stones;
- Cross-border transactions with foreign entities registered in certain low-tax jurisdictions according to a list established by the Russian Finance Ministry. The list of low-tax jurisdictions is the same as those currently established by the Russian Finance Ministry for applying for the dividend participation exemption (Cyprus, Malta and Hong Kong have been removed from this list).

Starting from 1st January 2019, domestic transactions between related parties are subject to transfer pricing control if the parties of the transaction apply different tax rates on profits or special tax regimes, provided that such transactions exceed RUB 1 billion in aggregate with a given related entity in a given calendar year.

The transfer pricing rules provide for five transfer pricing methods (comparable uncontrolled price, resale, cost plus, comparable profits and profit splits). The comparable uncontrolled price method is the primary method to be applied. In all other cases, the best method rule generally applies.

<p>Transfer pricing documentation</p>	<p>Taxpayers with controlled transactions (with certain exceptions) are required to maintain transfer pricing documentation and provide it to the tax authorities within 30 days of the relevant request. The transfer pricing documentation may be requested no earlier than 1 June of the year following the calendar year in which the relevant transactions took place.</p> <p>Starting from 1 January 2018, Russia has enhanced the transfer pricing rules for multinational groups of companies with one or more Russian tax residents or companies acting through Russian permanent establishments ("MNEs") to allow the use of global transfer pricing documentation and implement provisions of the Multilateral Competent Authority Agreement on the Exchange of Country-by-Country Reports. The country-by-country reporting includes master file, local file, and country-by-country report (CbCr). A taxpayer-participant of an MNE with a Russian parent company with an annual consolidated group revenue of less than RUB 50 billion in the financial year immediately preceding the reporting financial year is exempt from filing the master file, local file and CbCr. If the parent entity of an MNE is a foreign entity, the threshold established in the relevant jurisdiction (if any) applies.</p>
<b>Withholding tax</b>	
<p>Interest</p>	Taxed at a rate of 20%. When applying the provisions of the DTT, the rate may be reduced / tax will be paid in another country.
<p>Royalties</p>	Taxed at a rate of 20%. When applying the provisions of the DTT, the rate may be reduced / tax will be paid in another country
<p>Services</p>	<p>income from leasing and rental operations, etc. is taxed at 20%</p> <p>Freight income is taxed at 10%</p>
<p>When applying the respective provisions of a double tax treaty, a FLE should confirm that it is resident in a country that is party to a double tax treaty with the Russian Federation by supplying a tax certificate issued by the relevant foreign authorities, as well as providing the respective tax agent with confirmation that it is the actual beneficiary of the income received. Moreover, the Russian entity paying income to the FLE must have at its disposal (before payment) confirmation that the FLE has the actual right to receive the income. In the absence of a proper certificate and confirmation, tax should be withheld and remitted to the budget at the standard rate.</p>	

## Group taxation

Since 2018, it is forbidden to create new consolidated groups. Groups formed before 2018 may apply the regime until 2023. 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 corporate tax, VAT, excise tax, and MET 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 legislation (with one exception: transactions with mineral resources subject to MET with a percentage rate are still subject to control). Second, for the purposes of calculating profit tax, it is possible to consolidate group member entities' profits and losses.

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.

## Personal income tax

Taxable income	<p>Taxable income includes income received in cash, in kind and in the form of deemed income.</p>
	<p>Residents are liable to a flat PIT rate of 13% for all types of income received, except for the following:</p> <ul style="list-style-type: none"><li>• Excess interest income is taxed at 35%.</li><li>• The value of any awards and prizes received during contests, games, and other events conducted for the purpose of advertising goods, work, and services, in excess of set limits, is taxed at 35%.</li><li>• Loans taken with an interdependent entity (i.e. an entity in which the individual has direct or indirect control), with an employer, or representing the offset of a counterclaim from an individual to the lender, which are considered as 'beneficial loans'. Interest rates on beneficial loans are less than 9% (for non-Russian currency loan) and less than 2/3 of refinancing rate of the Central bank of Russia (for ruble denominated loans). The difference between the actual interest paid and interest recalculated at the respective rate is taxed at 35%.</li></ul>
Income from employment/ self-employment	<p>In Russia, the self-employed pay professional income tax or self-employed tax. Currently, this tax is valid in Moscow, Moscow region, Kaluga region, and Republic of Tatarstan. It is available to Russian citizens and citizens of countries that are a member of the Eurasian Economic Union (Belarus, Kazakhstan, Armenia, and Kyrgyzstan).</p> <p>'Professional income' includes income from activities in which individuals do not have an employer nor employees under employment contracts (e.g. tuition fees, rental income). Income taxable under this special regime is limited to 2,400,000 Russian roubles (RUB). Extra income is taxable on a regular basis depending on status of the individual. If services are rendered for individuals, the tax rate is 4%. If services are rendered for legal entities or individual entrepreneurs, the tax rate is 6%. Tax is payable on a monthly basis. Individuals paying tax on professional income are not required to pay PIT and/or social insurance contributions.</p> <p>Individuals and individual entrepreneurs may switch to this special tax regime and communicate with the Russian tax authorities via a special app.</p>
Income from property and property rights	<p>Property related tax deductions are available, <i>inter alia</i>, on expenses related to the purchase of (construction of) dwellings and on land plots for the construction of a dwelling (or along with a dwelling place) in Russia (up to RUB2,000,000). Interest on the loans used to pay for the above mentioned purchases / constructions may also be claimed as a deduction (up to RUB3 million. On the sale of</p>

	<p>residential property and land plots that have been owned for less than three or five years (depending on certain factors), a deduction up to RUB 1,000,000 or by the amount of documented actual expenses for the acquisition can be claimed. On the sale of other property owned for less than 3 or 5 years (depending on certain factors), a deduction of up to RUB 250,000, or by the amount of the actual documented expenses for the acquisition, may be claimed. Income from the sale of property that has been owned by the seller for three or five years (depending on certain factors) or more is tax-exempt, provided that the seller is a Russian tax resident in the year of sale.</p>
Income from capital	Certain deductions are available with regard to investments / financial results from the sale of specific types of securities via individual investment accounts opened in Russia.
Other income	<p>A 13% PIT rate applies generally to all types of income received by a tax resident except for certain types of non-employment income (e.g. deemed income resulting from the use of loans in certain conditions is taxable at the rate of 35%).</p> <p>A 30% PIT rate applies generally to all types of income received by a tax nonresident, except for specific types of income including:</p> <ul style="list-style-type: none"> <li>• 15% applicable to dividend income from Russian companies;</li> <li>• 13% applicable to the Russian employment income of foreign employees with the status of Highly Qualified Specialist, and to certain other specific categories of taxpayers</li> </ul>
<b>Withholding tax</b>	
Interest	13% for residents; 30% - for non-residents
Royalties	13% for residents; 30% - for non-residents
Dividends	13% for residents; 15% - for non-residents
Capital gain	13% for residents; 30% - for non-residents
The above tax rates apply subject to the provisions of the DTT	

## Mandatory social contributions

Contribution rates	Social security contributions are paid in Russia in the form of mandatory insurance contributions for a state pension, social and medical insurance for each employee (personified contributions), and mandatory social insurance contributions against occupational accidents and diseases (general, non-individualised contributions). Insurance contributions are levied on companies, individual entrepreneurs and individuals making payments to other individuals as part of employment relations and under civil contracts for the provision of services or the performance of work, and under other specific types of contract. Contributions are also levied on self-employed individuals, including individual entrepreneurs, notaries and lawyers. No mandatory contributions are payable by employees.		
Minimum and maximum contribution	For 2020, personified contributions are payable at the rates provided in the table below subject to an annual remuneration threshold established for contributions to pensions and social insurance. The threshold is subject to annual revision by the Russian government		
Type of insurance contribution	Annual threshold per employee	Rates on remuneration up to the threshold	Rates on remuneration in excess of the threshold
Pensions insurance	RUB 1 292 000	22%	10%
Social insurance	RUB 912 000	2,9%	-
Medical insurance	n/a	5,1%	5,1%
Self-employed individuals	Self-employed citizens applying professional income tax are not required to pay insurance premiums		
Employed individuals	n/a		

## BEPS implementation

CFC	<p>A controlled foreign company (CFC) is:</p> <ul style="list-style-type: none"><li>• A FLE (not a tax resident of the Russian Federation), or</li><li>• A foreign structure that does not involve the establishment of a formal legal entity (fund, partnership, trust, or other form of collective investment vehicle and/or trust management), or</li><li>• A FLE with capital that does not consist of shares/participation units (foundation units) controlled by a Russian tax resident company or individual.</li></ul> <p>CFC rules are applied to:</p> <ul style="list-style-type: none"><li>• FLEs in which a Russian tax resident effectively owns at least 25% of the capital, and</li><li>• FLEs in which a Russian tax resident effectively owns at least 10% of the capital, if Russian tax residents cumulatively own at least 50% of the capital;</li><li>• FLEs controlled by Russian tax residents, i.e. they exercise a decisive influence on decisions regarding distribution of the FLE's profits irrespective of the legal grounds for that control.</li></ul> <p>CFC rules provide a number of exemptions from CFC taxation. If an exemption applies, then the profits of that particular CFC are not subject to tax, though the controlling person / entity is not relieved from its reporting obligations. These exemptions, <i>inter alia</i>, include the following:</p> <ul style="list-style-type: none"><li>• Foreign companies treated as an active foreign company, active holding / or active sub-holding company; or</li><li>• Foreign companies for which the effective tax rate at the end of the year for which the financial statements are prepared is not less than 75% of the weighted-average corporate income tax rate in Russia. This exemption only applies to CFCs resident in treaty-protected jurisdictions, provided that these jurisdictions exchange tax information with Russia (as determined by the Russian tax authorities).</li></ul> <p>The undistributed profits of CFCs are subject to:</p> <ul style="list-style-type: none"><li>• Corporate profits tax at 20% if the controlling person / entity is a Russian-resident company, or</li><li>• Personal income tax at 13% if the controlling person / entity is a Russian-resident individual.</li></ul>
DAC6	n/a

	<p>Financial institutions (FIs) are obliged to submit CRS reports relating to foreign (non-Russian) tax resident clients/beneficiaries on an annual basis by 31 May of the year following the reporting period.</p> <p>FIs include:</p> <ul style="list-style-type: none"> <li>• A credit organisation;</li> <li>• Insurance Company;</li> <li>• Securities market participant;</li> <li>• Trustee for property management;</li> <li>• Private pension fund;</li> <li>• Joint-stock investment fund;</li> <li>• Management company of an investment fund, unit investment fund or non-state pension fund, central counterparty;</li> <li>• Managing partner of an investment partnership;</li> <li>• Another organization or structure without the formation of a legal entity that, in the course of its activities, accepts funds or other financial assets from customers for storage, management, investment and (or) other transactions in the interests of the client or directly or indirectly at the expense of the client.</li> </ul> <p>In response to the COVID-19 outbreak, the Russian government has adopted Decree No. 409 of 2 April 2020 "On Measures to Ensure the Sustainable Development of the Economy", under which the deadline for submitting CRS reports on foreign tax resident clients for 2019 and earlier reporting periods is postponed to 31 August 2020 (paragraph 8 of clause 3 of the Decree).</p> <p>Russian FIs may therefore submit CRS reports by 31 August rather than 31 May.</p>
Profit shifting rule	<p>When income payed by the sources in the Russian Federation to foreign organizations the provisions of international agreements are applied only when this foreign person is the beneficial owner of income. To recognize a person as the beneficial owner of income, it is necessary not just have the confirmation of legal grounds for the direct receipt of income, but this person should also be the direct beneficiary, i.e a person who actually benefits from the income received and determines its further economic fate.</p>
GAAR/ other anti-abuse rules (PPT, etc)	<p>Russia codified general anti-avoidance rules in 2017 ("Russian GAAR"). Under the Russian GAAR, the taxpayer is not allowed to reduce the tax base for intentional misrepresentation of economic events in statutory and tax accounting. In addition, the Russian GAAR allows taxpayers to use tax benefits if two criteria are satisfied. First, enjoying a tax benefit (e.g., incurring costs recorded as deductible or input VAT offset) must not be the primary purpose of the underlying transaction. Second, the taxpayer must be able to demonstrate that the transaction in question was actually performed by a party to the contract or by a person to whom the relevant responsibility was shifted by contract or by law.</p>

# Global employment issues

## Work and Residence permit

As a general rule, foreign nationals working in Russia are required to have a work permit. There are a few exceptions to this rule mainly related to certain CIS nationals and other foreign nationals who possess residency permits. Work permits are not always required for the employees of suppliers or manufacturers of equipment imported into Russia for the purpose of installing, supervising the installation of, or servicing the equipment. The standard work permit application process is quite a lengthy and burdensome procedure consisting of several stages. Each stage involves the submission of applications together with an extensive list of documents.

The stages include:

- Registration with the local employment authorities;
- Submission of an application to the Employment Service stating that there are vacancies in the company for which only the employment of foreign citizens will satisfy. The Authorities must reach a conclusion that this is correct. In order to make a conclusion, the authorities may send to the applicant potential candidate Russian citizens for interview;
- Submission of an application for a corporate permit from the immigration authorities to engage foreign labour;
- Submission of an application to the immigration authorities for each expatriate's individual work permit. The individual permit is issued for a period of up to one year. In a separate process, but based on the work permit, a work visa must be obtained. Its procurement also involves several stages in which a specified set of documents must be submitted to the immigration authorities.

It should be noted regarding work permits that each year, by 15 July, companies must report the number of foreign employees they anticipate to engage in the next calendar year. This procedure effectively constitutes a quota application system. If the employer does not comply with this and does not receive notification that they have an approved quota, the employer will have any work permit applications rejected next year. A company that fails to file a quota application or whose application was denied or partially approved has the right to use a list of quota-exempt positions when applying for a work permit, but only if the application meets all of the quota exemption requirements.

## Minimum salary

The minimum salary used to regulate salary and determine the amount of benefits for temporary disability, maternity, as well as for other purposes of compulsory social insurance in Russia as of January 1, 2020 is 12 130 rubles per month.

## Taxation of immovable property

Tax depreciation	Depreciable property is recognized as property, results of intellectual activity and other objects of intellectual property that are held by the taxpayer on the right of ownership (unless otherwise provided by this chapter) and used by him to generate income. Depreciable property is recognized as property, results of intellectual activity and other objects of intellectual property with a useful life of more than 12 months and an initial value of more than 100,000 rubles.
<b>Depreciation categories</b>	
Land	Land and other natural resources (water, subsoil and other natural resources) are not subject to depreciation
Building	Taxpayers are entitled to choose one of the following depreciation methods: 1) linear method; 2) non-linear method. The depreciation method is established by the taxpayer independently with regard to all objects of depreciable property with the exception of buildings, structures, transmission devices, intangible assets included in the eighth to tenth depreciation groups - a linear depreciation method is used for such objects.
Tax base	n/a
Special depreciation	In some cases, taxpayers are entitled to apply special raising or lowering factors to the basic depreciation rate. The use of increasing coefficients will reduce the useful life of objects (accelerated depreciation). When reducing factors are used, the useful life will increase. Taxpayers have the right to apply different ratios to different types of depreciable property, but at the same time it is impossible to apply more than one raising coefficient.
Real estate transfer tax	n/a

## Property tax (rate and base)

Property tax is levied on those properties listed on a taxpayer's balance sheet as fixed assets (except for land plots). Generally, the tax base is the net book value of the average annual fixed assets according to Russian statutory accounting. For a number of property types (administrative and business centres; nonresidential premises to be used / actually used as offices or for trading and catering; a FLE's immovable property that does not have PE status in Russia, or is not being used in the PE's operations in Russia; residential premises not accounted for as a fixed asset on the balance sheet), the tax base is the cadastral value of the specific facility. Effective from 1 January 2019, movable property will be removed from the corporate property tax base. Property is qualified as being real estate entered in the Unified State Register of Immovable Property. FLEs having no PE in Russia are subject to property tax only on immovable property located in Russia.

### Tax rate

The maximum tax rate is **2.2%**.

Lower tax rates are established for assets classified as public railways, pipelines and power lines, and assets constituting an integral, technical component of the above. A list of these types of assets has been compiled by the Government of the Russian Federation.

The regional authorities can reduce the property tax rate **to zero percent**.

With respect to immovable property (for which the tax base is the cadastral value), the tax rate cannot exceed **2%**.

## Incentives

### Investment incentives

Taxpayers will have a choice to use depreciation or to deduct the cost of investment (cost of fixed assets acquired) directly from the CIT. The choice is available in constituent regions where an appropriate law is adopted. Up to 90% of expenses can be deducted from the regional CIT and up to 10% from the federal CIT. Considering this, the amount of regional CIT must be at least 5% of the tax base before applying the deduction. The amount of federal CIT may be reduced to zero. The Russian regions may set a cap on the amount of the deduction. If the amount of investments exceeds the set cap, it may be carried forward for an unlimited number of years. The deduction is applicable only to newly commissioned (or modernised) assets with a useful life of 3 to 20 years (such as buildings, machinery, and transport).

	<p>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 number of tax and non-tax incentives.</p> <p>The SPIC legislation was amended in 2019. According to the SPIC 2.0, the following tax incentives are available:</p> <ul style="list-style-type: none"> <li>• Non-application to the investor of the amendments to the Tax Code which worsen its position.</li> <li>• Reduced income tax rate provided that sales from SPIC products account for at least 90% of the taxable income</li> <li>• The application of tax benefits is now not limited to 2025. However, SPIC 2.0 provides for a new restriction: tax benefits shall be applied as long as the total amount of incentive measures (subsidies issued and shortfalls in taxes received by the budget) does not amount to 50% of capital investments specified in the SPIC.</li> </ul>
Regional investment projects and special investment contracts	<ul style="list-style-type: none"> <li>• Non-application to the investor of the amendments to the Tax Code which worsen its position.</li> <li>• Reduced income tax rate provided that sales from SPIC products account for at least 90% of the taxable income</li> <li>• The application of tax benefits is now not limited to 2025. However, SPIC 2.0 provides for a new restriction: tax benefits shall be applied as long as the total amount of incentive measures (subsidies issued and shortfalls in taxes received by the budget) does not amount to 50% of capital investments specified in the SPIC.</li> </ul>
R&D incentives	<ul style="list-style-type: none"> <li>• Reduced CIT rate for IT companies in several regions.</li> <li>• Certain R&amp;D services are exempt from VAT.</li> <li>• Certain R&amp;D service-related expenses, as listed by the government, are deductible using a coefficient of 1.5.</li> <li>• Fixed assets used in science and technology may be depreciated with an accelerated coefficient of up to 3.</li> <li>• Reduced rates for contribution payments to social funds are established for IT companies.</li> </ul>
Young employees, elderly employees	<p>The Tax Code provides for the following types of tax deductions for personal income tax:</p> <ul style="list-style-type: none"> <li>• Expenses for medical treatment and medicines for the taxpayer and his/ her spouse, parents, children;</li> <li>• Contributions to voluntary medical insurance for the taxpayer and his/ her spouse, parents and children;</li> <li>• Contributions to a private pension fund for the benefit of the taxpayer, his/her spouse, parents and any disabled children;</li> <li>• Additional insurance contributions to the cumulative part of the state pension.</li> </ul> <p>The above deductions cannot exceed RUB 120,000 in one calendar year per taxpayer (except expenses for certain expensive medical treatments on a specific list approved by the Russian Government, deductible by the actual expense amounts)</p>
Educational incentives	<p>Subject to deduction for personal income tax purposes: expenses incurred by the taxpayer on the education of him/herself and each of his/her children (expenses for the education of the taxpayer's children, deductible within a limit of RUB 50,000 per child)</p>

Special project incentives	<p>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 FIFA and its contractors.</p>
Special tax regimes:	<p>The Tax Code also provides special tax regimes under which a taxpayer is entitled to pay one single tax instead of numerous different taxes.</p>
	<p>The local tax authorities allow certain taxpayers to apply a unified tax on imputed income if the taxpayers are engaged in:</p> <ul style="list-style-type: none"> <li>• Domestic consumer services;</li> <li>• Veterinary services;</li> <li>• Vehicle maintenance, repair and washing;</li> <li>• The leasing of car parking places and car parking services;</li> <li>• Passenger and cargo transportation services (certain restrictions apply);</li> <li>• Retail trade and catering (certain restrictions apply);</li> <li>• Certain kinds of advertising;</li> <li>• Accommodation provision services (certain restrictions apply).</li> </ul> <p>Unified imputed income tax is applicable if the taxpayer satisfies the following criteria:</p> <ul style="list-style-type: none"> <li>• The average number of annual staff is equal to or lower than 100;</li> <li>• Other legal entities have contributed less than 25% to the taxpayer's share capital.</li> </ul> <p>The unified imputed income tax is not applied at the same time as the simplified tax or unified agricultural tax. Payers of the unified imputed income tax are exempt from the following taxes (on those operations subject to this tax):</p> <ul style="list-style-type: none"> <li>• Profits tax;</li> <li>• VAT (except for VAT payable on imports);</li> <li>• Property tax (except for tax payable based on cadastral value).</li> </ul> <p>Unified imputed income tax is levied on a taxpayer's imputed income. Imputed income is determined as the base return rate from business activities during the period multiplied by physical (the area of land employed, number of vehicles or number of staff) and other adjusting factors.</p> <p><b>Imputed income tax is paid at a rate of 15%.</b> The municipal authorities can decrease this rate to anything within a range <b>from 7.5% to 15%</b>, depending on the taxpayer's category and the type of imputed activities</p>
1.Unified tax on imputed income	

## 2. Simplified taxation system

The simplified tax system replaces profits tax, VAT (except for VAT payable on imports) and property tax (except for tax based on the cadastral value).

A company can apply the simplified tax system if it satisfies the following criteria in the first nine months of the year preceding its planned adoption of the simplified tax system:

- The company's revenue for 9 months does not exceed RUB 112,500,000 though this limit is subject to annual indexation;
- The net book value of fixed assets does not exceed RUB 150,000,000;
- The average annual number of staff does not exceed 100.

**The following entities cannot apply the simplified tax system:**

- Russian legal entities with branches;
- Foreign legal entities and representative offices (branches) of FLEs;
- Banks, insurance companies, pension funds, investment funds, parties to production sharing agreements, payers of unified agricultural tax, etc.;
- Entities in which other legal entities have participation shares exceeding 25%

**The simplified tax rate can be:**

- 6% on revenues. The regional authorities can decrease this rate to anything within a range from 1% to 6%, depending on the taxpayer's category; or
- 15% on profits (revenues minus deductible expenses). The regional authorities can decrease this rate to anything within a range from 5% to 15%, depending on the taxpayer's category.

## 3. Unified agricultural tax

Agricultural producers are allowed to apply the unified agricultural tax (if the income from agricultural activities of such producers is more than 70% of total revenue). This tax replaces profits tax, VAT (except for VAT payable on imports) and property tax.

The unified agricultural tax is levied on income minus deductible expenses.

Income is calculated in accordance with general profits tax rules. Expenses are deductible only if they are referred to in the authorised list, economically justifiable and properly documented.

Unified agricultural tax is paid at a rate of 6%.

## Tax liabilities

	<b>For taxpayers</b>	<b>For directors (chief officers)</b>	<b>For shareholders</b>
<i>Binding opinion/ Advanced tax rulings</i>	Yes	n/a	n/a
<i>Penalties for late payment of tax</i>	<p>Penalty interest on late payments:</p> <ul style="list-style-type: none"> <li>• For a period of up to 30 calendar days (inclusive) – 1/300 of the current refinancing rate of the Central Bank of the Russian Federation;</li> <li>• For more than 30 calendar days – 1/300 refinancing rate of the Central Bank of the Russian Federation, effective for the period up to 30 calendar days (inclusive) of such delay, and 1/150 refinancing rate of the Central Bank of the Russian Federation, effective for the period starting from the 31st calendar day of such delay</li> </ul>	n/a	n/a
<i>Tax misdemeanor provisions</i>	A fine of up to 40 percent of the unpaid tax amount	n/a	n/a
<i>Criminal provisions</i>	n/a	Criminal penalties for tax evasion	Criminal penalties for tax evasion
<i>Piercing the corporate veil</i>	n/a	Personal liability for misuse of their powers	Personal liability for misuse of their powers
<i>Advanced pricing agreements</i>	For some large business companies	n/a	n/a

## Deadlines for reporting and payment of taxes and social contributions

Type of tax	Reporting deadline	Payment deadline
CPT	Taxpayers (except PEs and certain other taxpayers) are allowed to file profits tax returns either monthly or quarterly. PEs should file profits tax returns quarterly. An annual return is due by 28 March of the year following the reporting year.	Advance payments for taxpayers - no later than 28 calendar days from the date of the end of the corresponding reporting period. Payment of tax for the year - no later than March 28 of the year following the reporting
PIT for employers	<p>The certificate in the form 2-PIT is submitted <b>no later than March 1</b> of the year following the expired period.</p> <p>The calculation of the personal income tax amounts calculated and withheld by the tax agent is presented in the form of 6-personal income tax for the first quarter, six months, nine months - <b>no later than the last day of the month</b> following the corresponding period, for the year - no later than <b>March 1</b> of the year following the expired tax period .</p> <p>Information about the impossibility of withholding personal income tax is submitted in the form of 2-personal income tax no later than <b>March 1</b> of the year following the expired tax period</p>	Tax agents transfer the personal income tax withheld to the budget no later than the day following the day the income is paid to the taxpayer. When paying temporary disability benefits and vacation pay, tax agents transfer personal income tax amounts no later than the last day of the month in which such payments were made
PIT for entrepreneurs, lawyers, notaries, etc	The return in the form of 3-personal income tax shall be submitted no later than April 30 of the year following the expired tax period	<p>The tax must be paid no later than July 15 of the year following the expired tax period.</p> <p>Advance payments are calculated independently and paid:</p> <ul style="list-style-type: none"> <li>• Based on the results of the 1st quarter - not later than April 25,</li> <li>• According to the results of six months - not later than July 25,</li> <li>• According to the results of 9 months - no later than October 25</li> </ul>

VAT	VAT returns should be submitted quarterly in electronic form by no later than the twenty-fifth day of the month following the quarter that has ended.	Generally, one third of the amount of VAT due should be paid by the twenty-fifth day of each of the three consecutive months following the reporting quarter.
Social contributions	The calculation of social contributions is submitted no later than the 30th day of the month following the settlement (reporting) period	Monthly payment is due no later than the 15th day of each month.

## Double taxation treaties

The beginning of the application of the MLI in relation to the Russian DTT to which the MLI applies, no earlier than January 1, 2021, after the notification of completion of domestic procedures corresponding to the readiness of the Russian Federation to be sent through diplomatic channels to the OECD and its partner countries application of the norms of the MLI.

Country	Dividends	Royalties	Interest	Affected by MLI
Albania	10%	10%	10%	n/a
Algeria	5%; 15%	15%	0%; 15%	n/a
Argentina	10%	15%	15%; 0%	n/a
Armenia	5%; 10%	0%	0%; 10%	n/a
Australia	5%; 15%	10%	10%	n/a
Austria	5%;15%	0%	0%	n/a
Azerbaijan	10%	10%	0%;10%	n/a
Belarus	15%	10%	0%;10%	n/a
Belgium	10%	0%	0%;10%	n/a
Botswana	5%;10%	10%	0%;10%	n/a
Brazil	10%;15%	15%	0%;15%	n/a
Bulgaria	15%	15%	0%;15%	n/a
Canada	10%;15%	0%;10%	0%;10%	n/a
Chile	5%;10%	5%;10%	15%	n/a
Chine	5%;10%	6%	0%	n/a

Croatia	5%;10%	10%	10%	n/a
Cyprus	5%;10%	0%	0%	n/a
Cuba	5%;15%	5%	0%;10%	n/a
Czech Republic	10%	10%	0%	n/a
Denmark	10%	0%	0%	n/a
Egypt	10%	15%	0%;15%	n/a
Finland	5%;12%	0%	0%	n/a
France	5%;10%;15%	0%	0%	n/a
Germany	5%;15%	0%	0%	n/a
Greece	5%;10%	7%	7%	n/a
Hong Kong	5%;10%;0%	0%	3%	n/a
Hungary	10%	0%	0%	n/a
Iceland	5%;15%	0%	0%	n/a
India	10%	10%	0%;10%	n/a
Indonesia	15%	15%	0%;15%	n/a
Iran	5%;10%	5%	0%;7,5%	n/a
Ireland	10%	0%	0%	n/a
Israel	10%	0%;10%	10%	n/a
Italy	5%;10%	0%	10%	n/a
Japan	15%	0%;10%	0%;10%	n/a
Kazakhstan	10%	10%	0%;10%	n/a
North Korea (Dem. People's Rep.)	10%	0%	0%	n/a
South Korea (Rep.)	5%;10%	5%	0%	n/a
Kuwait	0%;5%	10%	0%	n/a
Kyrgyzstan	10%	10%	0%;10%	n/a
Latvia	5%;10%	5%	5%;10%	n/a

Lebanon	10%	5%	0%;5%	n/a
Lithuania	5%;10%	5%;10%	0%;10%	n/a
Luxemburg	5%;15%	0%	0%	n/a
Macedonia	10%	10%	10%	n/a
Malaysia	15%	0%;15%	10%;15%	n/a
Mali	10%;15%	0%	0%;15%	n/a
Malta	0%;5%;10%	5%	5%	n/a
Mexico	10%	10%	0%;10%	n/a
Moldova	10%	10%	0%	n/a
Mongolia	10%	the domestic rate applies; there is no reduction under the treaty.		0%;10% n/a
Montenegro	5%;15%	10%	10%	n/a
Morocco	5%;10%	10%	0%;10%	n/a
Namibia	5%;10%	5%	0%;10%	n/a
Netherland	5%;15%	0%	0%	n/a
New Zealand	15%	10%	10%	n/a
Norway	10%	0%	10%	n/a
Philippines	15%	15%	0%;15%	n/a
Poland	10%	10%	10%	n/a
Portugal	10%;15%	10%	0%;10%	n/a
Qatar	5%	0%	0%;5%	n/a
Romania	15%	10%	0%;15%	n/a
Saudi Arabia	0%;5%	10%	0%;5%	n/a
Serbia	5%;15%	10%	10%	n/a
Singapore	5%;10%	5%	0%	n/a
Slovak Republic	10%	10%	0%	n/a
Slovenia	10%	10%	10%	n/a

South Africa	10%;15%	0%	0%;10%	n/a
Spain	5%;10%;15%	5%	0%;5%	n/a
Sri Lanka	10%;15%	10%	0%;10%	n/a
Sweden	5%;15%	0%	0%	n/a
Switzerland	0%;5%;15%	0%	0%	n/a
Syria	15%	4,5%;13,5%;18 %	0%;10%	n/a
Tajikistan	5%;10%	0%	0%;10%	n/a
Thailand	15%	15%	0%;10%	n/a
Turkey	10%	10%	0%;10%	n/a
Turkmenistan	10%	5%	5%	n/a
UAE	0% -this rate applies only if the recipient is a financial or investment institution	The treaty does not cover royalties	0%-this rate applies only if the recipient is a financial or investment institution.	n/a
UK	10%	0%	0%	n/a
Ukraine	5%;15%	10%	0%;10%	n/a
USA	5%;10%	0%	0%	n/a
Uzbekistan	10%	0%	0%;10%	n/a



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## About Crowe in Russia

Leveraging the global reach and resources of Crowe Global firms and building on our 25+ years in the market, Crowe CRS is a combination of an accounting firm and a law firm and offers support across a wide range of industries and solutions.

Our **accounting** services include assurance services, accounting, tax, accounting forensic, transfer pricing.

Our **legal** services include tax law and corporate law, M&A, real estate, labor law, litigation and dispute resolutions.

Our **corporate finance** services include M&A advisory, transaction support, valuation services and various supporting services.

Building on our English-speaking teams we help companies from all over the world to do business and prosper in Russia while assisting Russian companies with international aspirations enter foreign markets, grow and sustain their business internationally.

Being in the top-10 league of professional firms and striving to be a big-4 alternative for the middle market we deliver complex solutions that require multi-disciplinary insight.

Tax is our strongest practice and we cover every aspect of it – from a simple VAT return to complex transfer pricing studies, from tax due diligence to resolution of disputes with the tax authorities and tax litigation.

## Our Global Reach

In addition to our local and regional services, as members of Crowe Global, we can draw on a worldwide network of independent professionals and their know-how. The Crowe Global network consists of more than 180 independent accounting and advisory services firms in about 140 countries around the world.

As member firm of Crowe Global we offer comprehensive, international expertise in a broad range of business consulting practices, including assurance, M&A, corporate finance, forensic services, human resources services, tax & regulatory.

This unique combination of our local and regional talent coupled with the global reach of our network provides us with the local expertise and global worldwide capabilities our clients expect and deserve.