

Property Taxes

Businesses pay Land Tax, Corporate Property Tax and Transport Tax.

Although Land Tax is also a local tax there are some differences that distinct taxation of businesses from individuals. Business and self-employed individuals must file land tax returns declarations. Land tax rate is established by local authorities but cannot exceed the levels set by the Federal Legislation at 1,5% of cadastral value of land parcel. Maximum tax rate for farmland is set at 0,3%.

Certain types of legal entities, i.e. religious organizations, non-governmental associations of disabled people and etc. may be exempt from payment of Land Tax. Land located within Special Economic Zones is generally not subject to taxation.

Corporate Property Tax is a regional tax with levels of tax rates established by regional legislatures within the limits of federal legislation which establishes maximum rate at 2,2%. Corporate Property Tax base includes only the annual book value of fixed assets recorded in taxpayer balance sheet.

Non-immovable fixed assets that are brought on the balance sheet after January 1, 2013 are not subject to taxation. Certain types of property may also be exempt from taxation. Some exemptions are applied to businesses that are residents of Special Economic Zones.

Other taxes

All taxes in Russia are regulated by federal legislation. Regional and local authorities do not have the power to introduce any new taxes or taxes which are not described in federal legislation.

Apart from the taxes that are described above taxpayers may also pay Minerals Extraction Tax, Tax on Water Resources, Fees for Exploiting of Wild Life and for the Use of Aquatic and Biological Resources, Gambling Tax and Stamp Duty.

Social Contributions

Employers make Social Contributions to Pension Fund, Medical Fund and Social Security Fund. Generally total rate of Social Contributions is 30% of an employee payroll. Annual salaries exceeding RUB 512,000 are subject to additional 10% charge.

Special Social Contributions rates may be applied to certain groups of employers and professionals.

Excises

Certain categories of produced or imported goods (e.g. tobacco, alcohol, petrol and lubricants) are regarded as excisable. Different rates of excises are applied to different types of goods.

TAX ADMINISTRATION FEATURES

Federal Tax Service of Russia is the only tax administration authority in the country. It administers taxes in accordance with the federal law for all levels of Russian Government.

Taxpayer Personal Identification Number

All Russian taxpayers whether individuals or companies are assigned unique Individual Taxpayer Number known in Russian as ИНН. Tax authority uses ITN to identify taxpayers regardless of their place of residence or work.

For individuals local tax inspectorates assign the ITN at their request. Addresses of tax inspectorate offices can be found on the web site of the Federal Tax Service at <https://service.nalog.ru/addrno.do>. An ITN will be required for employment purposes.

Companies or legal entities are assigned Individual Taxpayer Numbers at the time of their registration. Special registry offices of Federal Tax Service do registration of legal entities.

A step by step guidelines for starting a business in Russia can be found at http://nalog.ru/create_business/. Filing of documents for registering a company can be done online using e-signature.

Information about existing Individual Taxpayer Numbers is available on the web at <https://service.nalog.ru/inn.do>.

Payment of Taxes

More than 76% of businesses file tax returns and accounting reports electronically.

Approaches to Tax Audits

Only federal authority can perform tax audits. Taxes are audited either during desk audits or field tax audits.

Federal Tax Service is committed to being transparent about its tax auditing targets. Tax risks criteria are available to taxpayers on the web. Compliant businesses that observe these risks criteria are running a very small chance of been field audited. Tax auditing of the vast majority of businesses is done through desk audits, which are mostly analytical studies. In case of desk audits taxpayers may not even know that they were audited.

Businesses that do not meet tax risks criteria are usually the targets of the field tax audits with tax inspectors visiting company premises. Only less than one out of every thousand business in Russia become subject to field tax audits every year.

Large taxpayers are usually audited on regular basis.

Transfer Pricing and Advanced Pricing Agreements

Russian Transfer Pricing legislation is based on the OECD Guidelines.

To reduce tax risks large taxpayers may apply for Advanced Pricing Agreements.

Pre-court Appeal System

The Pre-court Appeal System creates an opportunity for taxpayers to resolve tax disputes that may arise in result of tax audits in an out of court proceedings which reduces taxpayer costs.

Since its initial introduction in 2008 the number of tax related court cases has decreased in 2012 by 52%.

Generally it takes about six month for a court system to arrive to a court verdict.

Double Tax Treaties

Elimination of double taxation is an essential goal pursued by the FTS. Currently we apply about 80 bilateral Treaties for the avoidance of double taxation signed with various countries from around the world.

Russian Government is preparing to enter into Tax Information Exchange Agreements with low tax jurisdictions.

For more information please send us an email ftstpi@nalog.ru or visit <http://eng.nalog.ru/>. ■



BRIEF GUIDE TO RUSSIAN TAXES 2014

IMPORTANT DISCLAIMER

The Brief Guide to Russian Taxes 2014 is published exclusively for purposes of providing a brief overview of the tax system in the Russian Federation. It cannot be considered as a complete and comprehensive explanation of the tax matters and can not be treated as guidance for practical tax purposes. No responsibility can be accepted for any loss, liability, claim, demand or damages arising from subsequent use of any materials or information presented herein.



INTRODUCTION

When travelling abroad people usually want to learn about the culture, history and economy of countries they have chosen as destinations of their journeys. Tax systems and tax administration play such an important role in peoples life that almost on every trip they ask questions about taxes in the land they are visiting and draw parallels with what they have at home.

Generally taxes represent a complex subject. They are difficult to describe in a brief guide and each tax system has features that distinct it from others. Russian tax system and tax administration are no exception. The idea to publish this brief guide came from numerous contacts with foreign nationals who were either visiting Russia before or just making plans visiting it for business or pleasure.

Being a client oriented government agency the Federal Tax Service has decided to publish an overview of the main features of our tax system and provide simple guidance to how taxes are administered in Russia.

TAXES GENERALLY PAYED BY INDIVIDUALS

In Russia most individuals are commonly paying Personal Income Tax and Property Taxes. On some occasions other taxes may also be applied.

Personal Income Tax

Personal Income Tax is a flat rate levy collected from both resident and non-resident individuals. In most cases a 13% flat tax rate is applied to incomes of individuals who are tax residents in Russia. The tax rate stays unchanged regardless of the total amount of an individual income. Some deductions may be applied to Personal Income Tax.

To become a tax resident one has to stay in Russia for over 183 nonconsecutive days within a period of one year. Personal Income Tax for non-residents is established at 30% rate.

It is common that an employer or employers would withhold Personal Income Tax at the time of payment of salaries or wages. No filing of tax returns is necessary unless an individual has any additional income other than the one provided and declared by an employer.

In cases when a taxpayer would have additional income from sources other than employment (i.e. letting income, dividends, etc.) a special Tax Return Form known as 3-НДФЛ has to be filed to a local tax authority office before May 1 of each calendar year. The same form has to be filed in case a taxpayer chooses to apply for Personal Income Tax deductions. Software assisting in filling of this form can be downloaded from http://www.nalog.ru/fl/fl_ndfl/3782413/.

Income gained from payment of interest on bank deposits is not subject to taxation unless the interest rate differs from the Refinancing Rate of the Central Bank of Russia by more than 5%. Refinancing Rate is published at http://www.cbr.ru/eng/print.asp?file=/eng/statistics/credit_statistics/refinancing_rates_e.htm. Federal Tax Service may disclose information on bank accounts held in Russia to foreign competent authorities upon their request.

Income gained from sale of property that has stayed in ownership of seller for more than three years is not subject to taxation.

Taxation of income on dividends is established at 9% rate.

Property Taxes

All individuals who are owners of real estate or vehicles, boats, airplanes, etc. which are registered in Russia may be subject to paying three types of property taxes: Land Tax, Individuals Property Tax and Transport Tax.

Depending of the level of taxation local or regional legislative authorities establish property tax rates. Federal legislation limits the maximum tax rate that can be applied to land used for residential or public housing utilities purposes by 0,3% of cadastral value of land parcels. Cadastral value of land is an assessment that is based on the market value with the use of mass appraisal techniques. Information about applicable local tax rates can be found on <http://nalog.ru/tax/>.

Individuals do not have to file Property Tax returns. Local tax inspectorate offices calculate property taxes for individuals and mail them tax invoices. An individual must pay property taxes after receiving the tax invoice.

Payment of all three property taxes can also be done online at <https://lk2.service.nalog.ru/lk/> using a Private Account Office of an Individual that contains information on all taxable properties belonging to any given individual owner no matter where in Russia they may be located. Local tax inspectorate offices at request of individuals do initial registration procedure for online payment of property taxes. If an individual lives outside of Russia the online property tax payment facility allows making tax payments from abroad.

Certain groups of individuals, i.e. retired persons, indigenous minorities, etc. may be fully exempt from payment of property taxes.

There is no Inheritance Tax in the Russian Federation.

SPECIAL TAX SYSTEMS TO SUPPORT SELFEMPLOYED INDIVIDUALS, SMALL BUSINESSES AND FARMING

Special Tax Systems are introduced to support development of private initiative in Russia and are aimed at reducing tax burden for those who are either starting or running small business or involved in the farming sector. Business and

individuals may voluntarily choose between using either a Special Tax System or staying with the General Tax System.

Simplified Tax System

The Simplified Tax System includes two options that may be voluntarily selected by a taxpayer.

A small business or a self-employed individual may choose either to pay 6% tax rate on income or a 15% tax rate on income minus costs of their business. With some exclusion businesses that apply STS are relived from Profit Tax, Corporate Property Tax and the VAT. They may also choose to remain within the framework of a regular taxation regime which is applied to companies or legal entities.

Federal legislation lists economic activities that are prohibited from using STS (i.e. banks, insurance, gambling, etc.) Certain size and ownership criteria are applied for a business to become eligible for Simplified Tax System.

Unified Imputed Tax System

For certain types of services and trade local legislators have the power to establish Unified Imputed Tax System which may be applied to businesses with less than 100 employees. Some limits on ownership structure also apply.

Unified Imputed Tax is levied at 15% rate on imputed income which is a multiple of base income for a certain business activity and a physical indicators that characterize such activity (i.e. number of employees, number of seats, floor area of a shop and etc.). Base income levels are established by federal legislation. Local authorities may apply some correction coefficients.

Businesses that apply UITS are relieved from paying Profit Tax, Corporate Property Tax, Individual Property Tax if the income was derived from an activity that falls under list of UITS allowed activities or the property was used to gain income from such activity. Similarly such business is relieved from paying the VAT with exclusion of import VAT. Separate records have to be maintained for unlisted activities.

Patent System

Certain types of economic activity may be taxed under a Tax Patent system. The Federal Tax Service at request of a self-employed individual may issue a Simplified Tax Patent. Subject to individuals decision the duration of a Patent may range between 1 and 12 month. The tax period equals the duration of a patent.

The tax authorities determine the price of a patent, as a 6% share of potential annual income. Potential income amounts are established by acts of local legislators for each type of economic activity that is subject to taxation on patent basis.

Self-employed individuals using Tax Patent system do not need to file tax returns.

Unified Agricultural Tax

Farm producers that may select to use UAT include businesses and individuals involved in producing farm commodities as well as doing subsequent processing and marketing on the condition that at least 70% of such income revenue is derived from sales of their own farm products. Farmer processing and marketing cooperatives may also select UAT if at least 70% of their income is derived from transactions with their membership.

UAT tax rate is established at 6% with tax base calculated as costs deducted income. With some exclusions taxpayers that are using UAT system are relieved from paying Profit Tax, Corporate Property Tax and the VAT. With some exclusions self-employed farm producers may also be relieved from paying Personal Income Tax, Individuals Property Tax and the VAT.

GENERAL TAX SYSTEM

Most businesses in Russia use General Tax System.

Profit Tax

The Profit Tax rate is established at 20% of which 18% is channeled to a regional budget and 2% to the federal budget. Regional authorities have the power to reduce their share of tax revenue, thus reducing the total Profit Tax rate down to 15,5%. Residents of Special Economic Zones may also be subject to benefit of reduced profit tax rate.

Business that have farming as their prime source of income are subject to 0% profit tax rate.

Research and development costs including those that have not produced expected results are tax deductible within one year of completion. Certain types of these costs can be deducted using 1.5 coefficient.

Capital gains are treated as ordinary business income and are therefore subject to profit tax on the general bases.

Value-added Tax

Value-added Tax is commonly applied at the rate of 18% of the full sales price of transactions with goods, works, services or property rights as well as imports. Certain types of transactions are exempt from the VAT or subject to reduced VAT rate.

There is no VAT registration for companies.

There are no sales taxes.