Korpus Prava

Doing Business

Tax & Law Survey

Doing Business in Russia — 2016

Introduction

This review "Doing Business in Russia" was prepared by "Korpus Prava" specialists according to and based on the results of the generalisations of the law enforcement practices that were achieved due to company activities in the Russian Federation. This Review will be useful to all Russian and foreign entrepreneurs in order to devise methods of business management in Russia accordingly.

The information compiled for this review is as of 01.03.2016.

"Korpus Prava" specialists emphasize that the data outlined in this review "Doing Business in Russia" is for information purposes only and cannot be used as a basis for making a certain decision on any business issue. In order to form a legal opinion on a certain issue, you must seek professional advice to evaluate the problem that has occurred and to work out a way to resolve it.

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Chapter 1. Introduction

§1. General Information About the Russian Federation

1.1. Geography

Russia is situated on the north-eastern part of the biggest continent on Earth — Eurasia and takes up about a third of its territory (31.5%). Northernmost and easternmost points of the continent are also extreme points of Russia. Being situated on two parts of the world, — Europe and Asia — Russia takes up the eastern part of Europe and the northern space of Asia. The area of Russia is about 17.1 million km^2. It is more than all European countries taken together. Based on its territory, Russia is more comparable to a whole continent and not just a separate country. The area of Russia is bigger than the area of Australia and Antarctica, and it is only a bit smaller than South America (18.2 million km^2).

There are 11 time zones on the territory of Russia. The Russian Federation consists of 22 republics, 9 krays (administrative territories), 46 regions, cities of Federal importance Moscow, St. Petersburg and Sevastopol, 1 autonomous region and 4 autonomous areas.

Moscow is the capital city of the Russian Federation, it is a city of federal importance and it is the largest city by population, the city of Russia and Europe (according to the data in 2016 — 12 325 387 people)[1]. Based on this number Moscow is one of the top ten largest cities in the world. Largest cities: St. Petersburg, Novosibirsk, Nizhny Novgorod, Yekaterinburg, Samara, Omsk, Chelyabinsk, Kazan, Perm, Ufa, Rostov-on-Don, Volgograd.

The climate on the whole territory of Russia is characterised by a distinctive division of the year into cold and warm seasons. Big part of the country's territory is situated in the temperate zone, the islands of the Arctic Ocean and northern regions of the continent are situated in the arctic and subarctic zones, the Black Sea coast of Caucasus is situated on the subtropical zone.

1.2. Political System

Russia is a Federal Republic. The head of state is a president, and the executive power belongs to the government headed by a prime minister. Legislative power is implemented by the Federal Assembly that consists of two chambers: Federation Council and State Duma.

According to the article 12 in the Constitution of the Russian Federation, members of the local government are not included in the public authority system. However, they are independent within their own rights, and local governments are recognised and guaranteed in the Russian Federation.

According to the information available on the website of Ministry of Justice of the Russian Federation as of 01.03.2016, in accordance with the federal law on "Political Parties", there are 77 political parties registered, amongst which the most influential are the following:

- "United Russia";
- "Communist Party of the Russian Federation";
- "Liberal-democratic party of Russia";
- "Patriots of Russia";
- "Right Cause";
- "Fair Russia";
- "Russian United Democratic Party Yabloko".

1.3. Population and Language

According to the data as of 01.01.2016, the total number of people living in Russia is 146 519 759[1]. There are more than 180 nationalities[1] (ethnic groups) living in Russia. Around 80% of population in Russia are Russians, and a little bit more than 20% are other nationalities: Tatars, Chuvashians, Udmurtians, Chechens, Armenians, Mordvinians and a lot of Caucasian people.

Official (state) language on the whole territory of the Russian Federation is Russian. The people of the Russian Federation are guaranteed the right to preserve their native language.

1. Rosstat. Preliminary estimate of the number of resident population as of 01.01.2016 and the average number in 2015.

1.4. Currency Unit of Russia

Currency unit of Russia is a ruble. 1 ruble = 100 kopeks.

1.5. Religion

Orthodox is the most practiced religion among other religious confessions. People of the multinational Russia also practice such religions as Islam, Catholicism, Hinduism and Buddhism.

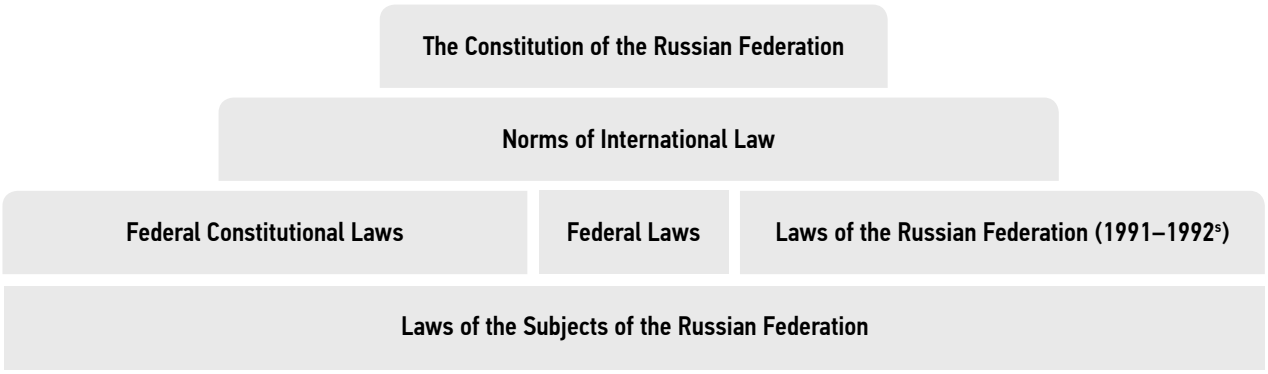
1.6. The Economy of Russia

Since the collapse of Soviet Union, Russia has experienced major economic changes and has developed towards market and globally integrated economic system in the last 25 years. During economic reforms in 1990s most industrial organisations have been privatised. Meanwhile, protection of property rights in Russia is still weak, and the private sector experiences major intervention by the government. Economy of Russia is number six among other countries in the world based on GDP amount.

The service sector (trade, transport, restaurants, hotels, communication, financial activities, operations with real estate, public administration, security, education, health etc.) dominates the economic structure of Russia — more than 48.6% GDP. Besides, manufacturing takes up a major part in the economic structure (food processing industry, textile and clothing industry, wood processing, wood production, pulp and paper industry, publishing activities, printing activities, production of coke and petroleum products, chemical production).

1.7. Legislative System of Russia

Legislative power in Russia is represented by the Federal Assembly — the parliament that consists of two chambers. Lower house of the parliament is State Duma that has 450 deputies; upper house of the parliament is the Federation Council that includes representatives of federal subjects (two of each). No federal law can be passed without the confirmation of the Federal assembly. Laws can also be passed by local authorities, but they mustn't contradict with the constitution and the federal law.



The legislation of Russia consists of the following acts:

1. The constitution of the Russian Federation is the main law, on the basis of which its legal system is built. The constitution is adopted through a referendum by popular vote.
2. Norms of international law — conventions, treaties, agreements that the Russian Federation has entered into and accepted the obligation to comply with their requirements. This process is implemented by a particular federal law.
3. Federal laws are normative legal acts that are passed by the State Duma and Federal Council, signed by the president and released in a certain order. Federal laws are subdivided into the following types:
   - Federal constitutional laws are fundamental legal acts that govern more significant issues in the country like work principles of the executive and judicial branches of the government, accepting new subjects as part of Russia and changing the status of the existing ones, establishing the state flag, coat of arms and national anthem.
   - Federal laws governing other aspects of the life of the society. There are codified and uncodified federal laws. Codes are legislative acts that contain systematic norms of any branch of the law. In this way, labour code determines the relationship between employers and employees at work, completion of employment contracts and health and safety regulations. Tax code regulates the relationship between tax payers and the government in the field of taxation. Criminal code includes a range of criminal offences as well as punishments for committing them. Very often codes have more legal power than uncodified federal laws.
   - There are also laws of the Russian Federation — acts that have the same legal power as federal laws, but they were passed in 1991–1992s. They differ from modern federal laws only in the time they were passed, and they get gradually left in the past.
4. Laws of the subjects of the Russian Federation are normative legal acts that have been passed by regional legislative bodies in accordance with the norms of the federal legislation.

1.8. Russian Membership in International Organisations

Russia belongs to the following largest international organisations:

- United Nations Organisation. Russia obtained its membership as an assignee of the Soviet Union (at the same time, Russia is one of the 15 members of the UN Security Council);
- The Organisation for Security and Co-operation in Europe;
- Commonwealth of Independent States that united most states that formed after the collapse of the Soviet Union;
- The Collective Security Treaty Organisation that is one of the largest military political unions in Eurasia;
- OPEC — organisation of the petroleum exporting countries;
- The Council of Europe — is it the oldest European regional international organisation;
- The Organisation of the Black Sea Economic Co-operation;
- BRICS — it is a global association of five fast growing economies of the world;
- Shanghai Co-operation Organisation;
- Central Asian Co-operation Organisation;
- The Eurasian Economic Community that promotes active development of Customs Union between Russia, Belarus, Kazakhstan, Armenia and Kyrgyz;
- World Trade Organisation. Russia obtained full membership of this organisation on 22.08.2012 after 18-year long negotiations on becoming a member.

In addition Russia is a member of International Organisation for Standardisation (ISO) and International Olympic Committee. On the basis of the bilateral treaty, Russia is united in a union state with the Republic of Belarus.

Russia also has observer status at the following organisations:

- The Organisation of Islamic Co-operation;
- The Organisation of American States;
- The International Organisation for Migration.

§2. Statistical Information

Statistical and analytical information presented in this chapter has been prepared by doingbuisness.org team as of June, 2016.

Company Registration

Comparative information about the procedures that you might encounter when opening a business in the Russian Federation is presented in the table below where we have listed activities, time and costs that are required in order to start a Limited Liability Company as the simplest form of business organisation:

An Indicator	The Russian Federation	Europe and Central Asia	OECD
Procedures (number)	5	4.7	4.7
Time (days)	12	10	8.3
Costs (% of gross income per capita)	1.2	4.8	3.2
Minimum paid up capital (% of gross income per capita)	0	3.8	9.6

Property Registration

Comparative information about procedures that you might encounter when registering property rights is presented in the table below. We have listed activities, amount of time and costs that are required for property registration:

An Indicator	The Russian Federation	Europe and Central Asia	OECD
Procedures (number)	3	5.4	4.7
Time (days)	15	22	21.8
Costs (% of property costs)	0.2	2.6	4.2
Quality of work index for a competent authority of the state rights registration (0-30)	26	19.4	22.7

Taxation

Comparative information about taxes that a medium-sized company must pay or withhold in a certain year is presented in the table below. Administrative burden associated with paying tax is also taken into consideration:

An Indicator	The Russian Federation	Europe and Central Asia	OECD
Payments (amount per year)	7	19.2	11.1
Length of time for report preparation and tax payments (hours per year)	168	232.7	176.6
Income tax (% of the profits)	8.9	10.8	14.9
Tax and salary payments (% of the profits)	35.6	20.4	24.1
Other taxes (% of the profits)	2.6	3.1	1.7
Total tax rate (% of the profits)	47.1	34.8	41.2

Contract Enforcement

Comparative information about the efficiency of coercive measures on compliance with contract conditions through investigation of time, costs and procedures that are involved in the process from the moment the matter is brought before a court until the payment is made is presented in the table below:

An Indicator	The Russian Federation	Europe and Central Asia	OECD
Time (days)	310	480.7	538.3
Legal costs (% of the cost of making a claim)	15	25.8	20.1
Quality of trial index (0–30)	12.5	10.5	11

Protecting the Interests

Comparative indicators covering the following aspects of protecting investors' interests are presented in the table below: transparency of transactions (disclosure index), tendency to use the situation for personal gain (director responsibility index), an opportunity for the shareholders to chase officers and directors judicially for misconduct (simplicity of shareholder claims index) and the index of the degree of protecting investors' interests. Indices are measured according to the scale from 0 to 10, where high score indicates a great degree of disclosure, great responsibility of directors, great influence on transactions being made and the best protection of investors' interests by the shareholders.

An Indicator (scores 0–10)	The Russian Federation	Europe and Central Asia	OECD
Disclosure index	6	6.7	6.4
Director responsibility index	2	4.9	5.4
Simplicity of shareholder claims index	7	6.7	7.2
The index of the degree of protecting investors' interests	5.7	6.2	6.4

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Chapter 2.
Forms of Doing Business. Legal Entities

§1. General Provisions

There are no special requirements for the foreigners wanting to do business in the Russian Federation. Regardless what country they are residents of, the Russian Federation or other state, investors fall under the same legal regime and have the same rights to doing business in Russia (except for specific business activities; restrictions in relation to those are listed below).

Russian legislation offers the following forms of doing business:

- Registration as a sole trader;
- Creation of Russian legal entity;
- Opening subsidiaries and branches of foreign legal entities.

According to Russian legislation, legal entities are divided into two big categories: commercial organisations and non-profit organisations. Commercial organisations are the following:

- Public and private joint-stock companies (PJSC);
- Limited Liability Companies (LLC);
- General Partnerships and Limited Partnerships.

Non-profit organisations are charities, associations, unions, institutions, non-profit partnerships, autonomous non-profit organisations, community-based organisations, consumers' cooperatives and some other forms of organisations.

Any commercial organisation has the right to perform business activities and distribute profits between its members without restrictions. For non-profit organisations, taking part in business activities is either prohibited or restricted. If their activities happen to bring a profit, they have no rights to distribute it between its members. The only exception to this rule is a consumers' cooperative.

Most legal entities in the Russian Federation perform their activities as Limited Liability Companies, as it is the most convenient form for the implementation of business activity.

§2. Separate Forms of Legal Entities

2.1. Limited Liability Company

Limited Liability Company is considered to be the most common and attractive form of the implementation of business activities.

Limited Liability Company (hereinafter — LLC) is a business community that has been created by one or more individuals whose authorised capital is divided into shares. Members of this community are not held liable for its liabilities and do not risk to be responsible for its losses that are related to company activities within the costs of the shares in the authorised capital that belong to them.

LLC owns separate properties, it can purchase properties and exercise its own property and private non-property related rights, it can perform duties and the role of a claimant and defendant in court.

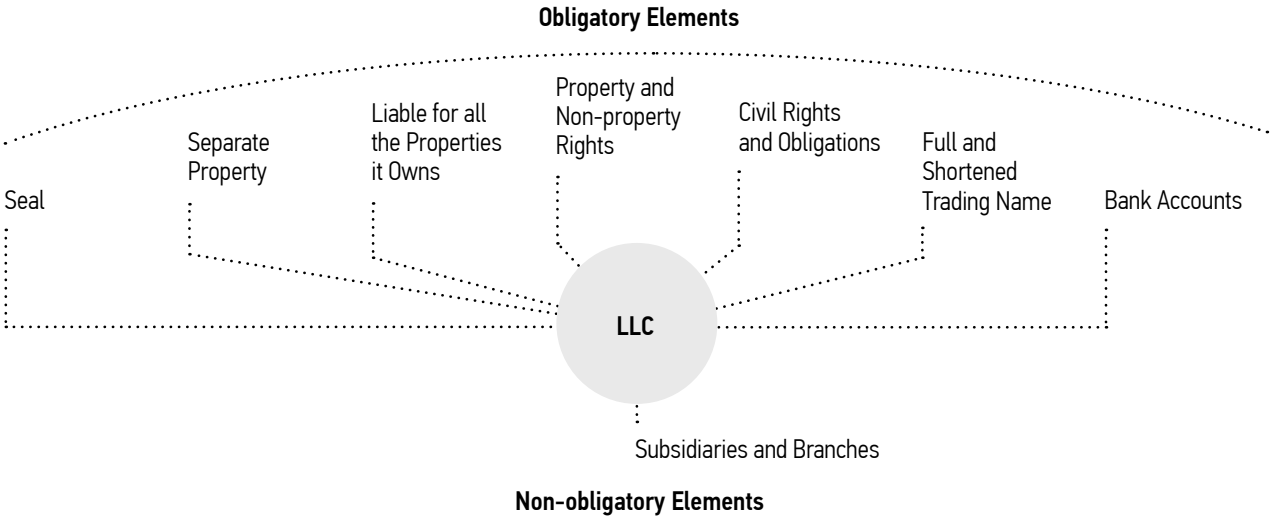
LLC is liable for all the properties it owns; however, it is not liable for its members.

LLC can have civil rights and bear civil obligations that are required in order to implement any types of activities that are not prohibited by federal laws, if it does not contradict with the aims and objectives of the activities that are determined by the authority of LLC.

LLC is considered to be created as a legal entity from the moment of its state registration in an order that has been established by the federal law on the state registration of legal entities.

LLC has the right to open bank accounts on the territory of the Russian Federation and abroad according to the established procedure.

LLC can have a round company seal that contains its full trading name in Russian and directions to where the company is located. The seal of LLC can also contain the trading name in any other language spoken by the nations of the Russian Federation and (or) a foreign language. LLC has the



right to have stamps and letterheads with their trading name on them, their own emblem, and also a trademark that has been registered in the established order and other means of individualisation.

LLC must have a full trading name and it also has the right to have a shortened trading name in Russian. LLC has also the right to have a full trading name and (or) a shortened trading name in other languages spoken by the nations of the Russian Federation and (or) in foreign languages. Full trading name of LLC in Russian must contain the full name and words "Limited Liability". A shortened trading name in Russian must contain full or shortened name and words "Limited Liability" or the abbreviation of LLC. The trading name of LLC in Russian cannot contain other terms or abbreviations that reflect its organisational legal form, including borrowings from foreign languages, if this is not provided for by federal laws and other legal acts of the Russian Federation.

LLC can create branches and open subsidiaries according to the decisions made by the members during general meetings. The branch of LLC is its separate division that is located outside the actual location of the LLC and performs all or parts of its functions, including representative functions. The subsidiary of LLC is its separate division that is located outside the actual location of LLC that represents the interests of LLC and provides their protection. A branch and a subsidiary of LLC are not legal entities, and they act on the basis of the conditions determined by the LLC. The branch and the subsidiary are provided with the property that is created by the LLC.

2.2. Joint-stock Companies

Joint-stock companies (hereinafter — JSC) — are companies, whose authorised capital is divided into a certain number of shares.

The supreme body of JSC is a general shareholder meeting. The sole executive body is a director (general manager). Collegial executive body is a governing body (directorate).

Shareholders receive part of the JSC's profits in the form of dividends for every share they own. Shareholder data is stored in the register of shareholders.

JSC can be public or private, which is reflected in the authority and company trading name. Main distinctive features of public and private shareholder companies are conditions and share distribution orders, and the rights of shareholders to the expropriation and advantageous acquisition of shares.

Only public JSCs have the right to conduct an open subscription to the shares they release and carry out their free sales. The shares of private companies are distributed only between its founders or between a group of people that is established in advance and cannot be offered to the general public. One cannot have pre-emptive rights to obtain shares that are expropriated by the shareholders in the public JSC.

Another difference between public and private shareholder companies is in the minimal amount of the share capital. It is 100 000 rubles for public JSCs and only 10 000 rubles for public JSCs.

Another, not less important, feature of the legal regime for a public JSC is that there is a requirement to do business publicly. Public JSC must publish the following documents in the mass media:

- Annual reports, annual financial statements;
- Emission prospectus;
- Messages on conducting general shareholder meetings;
- Other information that is determined by the regulations of securities market.

The aim of this requirement is to ensure that the information is provided to the potential investors of JSC who obtain shares through open subscription. Unlike public JSC, private JSCs must publish internal documents only if the number of shareholders is more than 50. In this case, the list of documents to be published by private JSCs only consists of annual reports and annual financial statements. Besides, when funds and securities are distributed publicly, private JSCs must disclose the information on the same level as public JSCs.

Private JSC can be converted into a public one and vice versa through introducing appropriate instructions in the authority. When converting the company, one must follow a number of procedural requirements that are related to the treatment of shares.

Public JSC	Private JSC
Open subscription to the shares they release	The shares are distributed only between its founders
Authorised capital at least 100 000 rubles	Authorised capital at least 10 000 rubles
Must publish in the mass media annual report, annual financial statement, emission prospectus, messages on conducting general shareholder meetings and other	Disclose the information only if the number of shareholders is more than 50 (only annual reports and annual financial statements), and when funds and securities are distributed publicly

2.3. Subsidiaries and Branches (Including Foreign Organisations)

Due to the increase in the demand for products and services in various locations, a foreign company might feel the need to perform some permanent activities outside its main location. With this goal in mind, the company has the right to create its own subdivision in any other location.

State legislation has pointed out the following types of subdivisions:

- Branches;
- Subsidiaries;
- Other separate subdivisions.

A branch is a separate subdivision of the legal entity that is located outside its main location and performs all or parts of its functions, including representative functions.

A subsidiary is a separate subdivision of the legal entity that is located outside its main location and that represents and protects the interests of the legal entity.

Other separate subdivisions occur if a legal entity creates a stationary workplace outside its main location. Opening a separate subdivision, unlike opening a branch or a subsidiary, does not require a prior permission from the competent body, its registration needs a simple notification.

Subsidiaries and branches are not legal entities. They are provided with the property of legal entities that have created them on the basis of the approved conditions.

The leaders of subsidiaries and branches are appointed as legal entities and act on the basis of the power of attorney.

The authority of the company must have the information on its branches and subsidiaries.

Subsidiaries and branches have a number of similarities, namely:

- Branches and subsidiaries are created outside the main location of the foreign organisation;
- Branches and subsidiaries are provided with parts of the property of the foreign (main) organisation that is considered on both its own separate balance-sheet and on the balance-sheet of the foreign (main) organisation;
- Branches and subsidiaries act on behalf of the legal entity;
- The leaders of branches and subsidiaries are appointed by the foreign (main) organisation and act according to the power of attorney provided to them;
- Foreign (main) organisation is responsible for the activities of the branches and subsidiaries;
- The information on their presence must always be kept in the constituent documents of the foreign (main) organisation.

The main difference between them is the restricted functionality of the subsidiaries in comparison to the branch.

The Procedure of Accreditation of the Branches and Subsidiaries of the Legal Entities

When opening a subsidiary, a foreign company must obtain a legal status, which means it must follow the procedure of its accreditation in certain legislative bodies.

Today the competent body for accreditation in most cases is The Federal Tax Service (hereinafter FTS of Russia). Exclusions are the following:

- Subsidiaries of foreign legal entities that perform activities in the field of civil aviation — Rosaviation acts as the competent body;
- Subsidiaries of foreign credit organisations — The Bank of Russia acts as a competent body.

Branches and subsidiaries are accredited indefinitely. The accreditation is carried out by FTS of Russia in no more than 25 days from the day all the necessary documents are submitted; then, the certificate of accreditation is handed out and the branch or subsidiary is entered in the uniform state register. FTS of Russia has the right to refuse accreditation of the subsidiary of the foreign organisation on the basis of the following:

- The documents specified by the legislation are not provided;
- The information about the foreign organisation is provided incorrectly or false information is provided;
- Activities of the foreign organisation do not comply with the current legislation of the Russian Federation.

Although the accreditation of the branch of the foreign organisation is indefinite, the activities of this subdivision on the territory of the Russian Federation can be stopped on the following grounds:

- If a foreign entity that has a subsidiary is eliminated;
- If a foreign entity (main organisation) decides so;
- If a federal entity of the executive power that is authorised to perform branch accreditation (FTS) decides so.

Personal Accreditation of Foreign Nationals Who are the Employees of the Branches and Subsidiaries of the Foreign Legal Entities

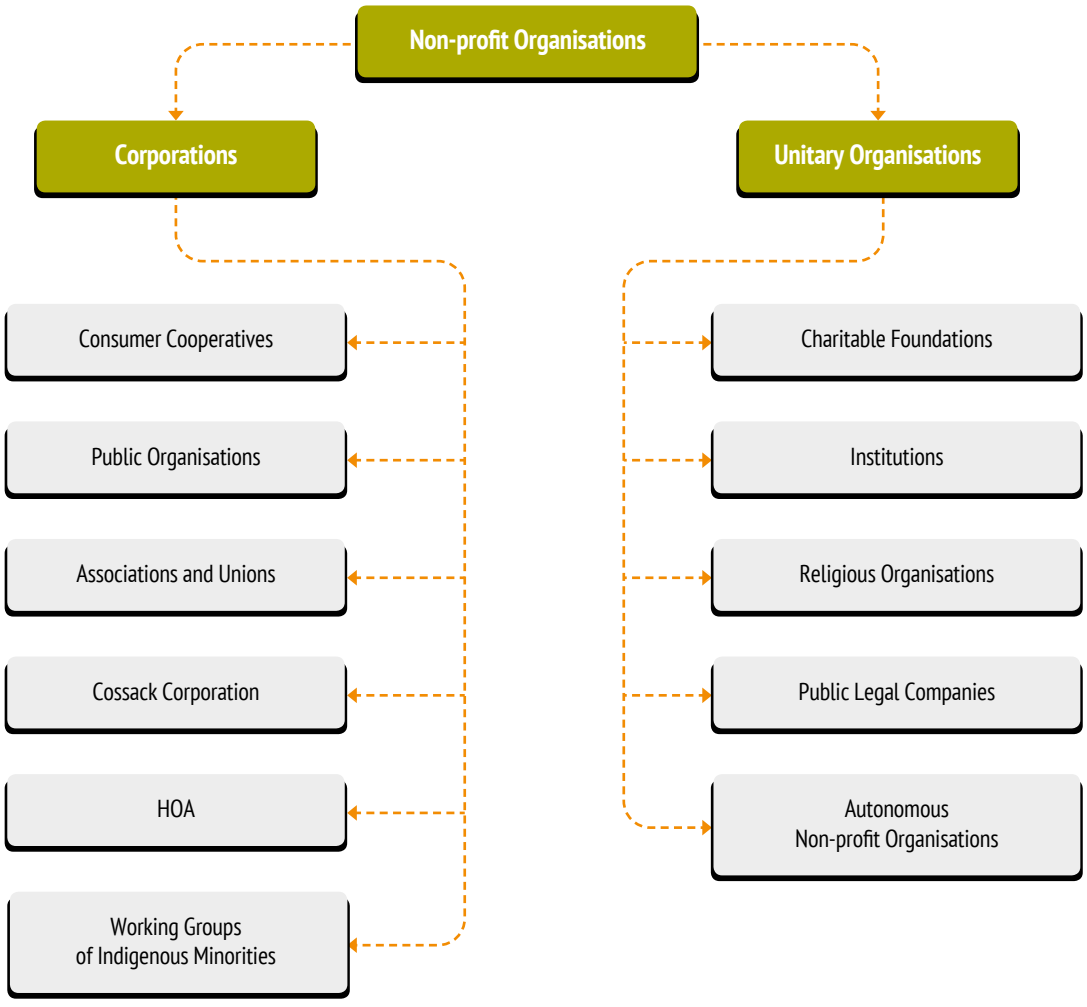
The headcount of foreign nationals who are the employees of the branches of foreign organisations is noted by the Chamber of Commerce of the Russian Federation (hereinafter — CCRF). When the documents are submitted for branch or subsidiary accreditation to the FTS in Russia, a foreign organisation must certify the headcount of the foreign employees of the branch or subsidiary in CCRF. Based on this certified headcount, CCRF carries out a personal accreditation of the foreign employees. The personal accreditation procedure must not take more than 6 months. When the procedure is finished, a personal accreditation certificate that is valid for 3 years is handed out.

2.4. Non-profit Organisations

Non-profit organisation (hereinafter — NPO) — is an organisation, whose main goal of the activities isn't to make a profit and that does not divide profits between the employees. Non-profit organisations can be created for social, charity, cultural, educational, scientific and government purposes in the fields of health and security of the people, sports activities, satisfying spiritual and other intangible requirements of the citizens, protecting the rights and interests of the citizens and organisations, resolving disputes and conflicts, providing legal assistance, and also for other purposes that are related to public well-being. Non-profit organisations have the right to carry out business activities, only if the activities are related to achieving organisational aims and objectives.

According to the legislation, all NPOs are divided into two groups: corporations and unitary organisations. Corporations are organisations whose employees have the right to fully participate in their activities and form a supreme governing body. Organisations, whose founders do not become the participants and do not obtain the membership rights, are unitary organisations. In relation to corporations, there are uniform employee management and employee rights rules established by the law. There are no similar rules established for unitary organisations.

NPOs can have civil rights that correlate with the aims of the activities that are described in the company documents and can be responsible for these activities.



The activities of some of the NPO forms (all associations) are allowed without a state registration; however, in this case the organisation cannot obtain the legal entity status, it cannot own or on the basis of property law any separate property. Organisations can obtain property and non-property rights, perform duties (be a part of the civil turnover, conduct business activities), be a claimant and defendant in court only if they have the legal entity status. NPO must have an autonomous balance sheet, a bank account, be on the books of the tax and other public bodies of accounting and control.

NPOs are created without time restrictions on their activities, unless otherwise stated by the founders of the non-profit organisation.

§ 3. Restrictions for Foreigner Participation in Certain Fields of Business Activities

There are number of restrictions for foreign nationals and legal entities set by the legislation to conduct certain types of business activities. These restrictions apply, first of all, to using mass media in doing business.

A foreign state, an international organisation, a foreign legal entity, a Russian legal entity with foreign participation, a foreign national, a stateless person, a citizen of the Russian Federation who is also a citizen of another state, all together or separately do not have the rights to become a founder (a participant) of the mass media, be a mass media editor or an organisation (a legal entity) that broadcasts through mass media.

All the entities listed above are prohibited to exercise ownership, leadership or control (directly or indirectly) in relation to more than 20% of parts (shares) in the authorised capital of the entity that is a participant of the mass media, editor of the mass media, an organisation (a legal entity) that broadcasts through mass media.

Any other forms of control are prohibited including informal ones, as a result of which, listed entities have an opportunity directly or indirectly to own or to lead the foundation of mass media, its editing body, organisations that broadcasts, control them, and also actually determine decisions made by them.

Any sort of dealings that lead to the violation of these requirements are worthless.

Chapter 3.
Taxation in the Russian Federation

§ 1. General Provisions

The main document that sets the taxation procedure in the Russian Federation is Tax Code of the Russian Federation that consists of general and specific parts. General (first) part of the Tax Code establishes the concept of tax and collection, tax payers, taxation objects, provisions on tax accounting and control, taxation procedures for the decision of the tax authorities. Specific (second) part of the Tax Code regulates separate taxes, collections (dues), determines tax payers, taxation objects, rates, deduction and payment procedures of relevant taxes, collections (dues).

According to the Tax Code of the Russian Federation, actual tax payments are divided into federal, regional and local taxes and collections. Federal taxes and collections include:

- Value added tax;
- Excise;
- Tax on personal income;
- Corporate income tax;
- Severance tax;
- Water tax;
- Collections for using the objects of the animal world and for using the objects of water biological resources;
- Government duty.

Regional taxes include:

- Tax on organisational property;
- Tax on gambling business;
- Transport tax.

Local taxes include:

- Land value tax;
- Tax on personal property;
- Trading collections.

Besides, mandatory insurance contributions are being paid into a pension fund, social insurance fund and mandatory medical insurance fund (federal and territorial) in Russia, as well as contributions paid towards insurance against accidents at work and occupational diseases.

§ 2. Separate Taxes

2.1. Excise

Excise taxpayers are:

- Organisations;
- Individual entrepreneurs;
- Individuals who are considered as taxpayers in relation to transporting products through customs boarder of the Customs Union.

Organisations and individuals become taxpayers when they perform operations that are subject to excise taxation. Typically, an individual or an organisation is considered to be an excise taxpayer upon implementation of the excisable products produced by them.

Excise is set on the following products:

- Ethanol from all types of raw material;
- Cognac spirit;
- Products containing spirits (solutions, emulsion, a mixture of substance and other types of products in liquid form) with a volume fraction of ethanol of more than 9 percent;
- Alcoholic beverages (drinkable spirit, vodka, liquor, cognac, wine, beer, beverages that are produced from beer, other beverages with a volume fraction of ethanol of more than 0.5 percent);
- Tobacco products;
- Cars;
- Motorcycles with an engine power of more than 112.5 kw (150 hp);
- Petrol for cars;
- Diesel;
- Motor oils for diesel and (or) for carburettor (fuel injection) engines;
- Petroleum naphtha;
- Middle distillates.

The rates of excise on the products are set by the absolute value per unit of measurement of the excisable goods (fixed

(specific) rates) and by the percentage from the cost of goods (ad valorem rates).

Calendar month is recognised as a tax period.

Excise is the only tax in the tax system of the Russian Federation that does not include any tax benefits to taxpayers according to federal legislation.

2.2. Value Added Tax (VAT)

According to the legislation of the Russian Federation, all organisations regardless of their organisational and legal forms and individual entrepreneurs, as well as organisations with foreign investments, international mergers and foreign legal entities must pay tax. Besides, the tax must be paid in when the goods are imported in the Russian Federation.

If VAT must be paid by someone who is not registered as a taxpayer in the tax authorities of the Russian Federation, tax agents, who must deduct and pay into the VAT budget for their providers in certain situations determined by law, must pay tax for them.

Objects of taxation are:

1. Sale of goods (works, services) on the territory of the Russian Federation. Transfer of ownership rights of the goods, carrying out works and providing services including those free of charge are considered a sale. Handing over certain types of properties is not subject to VAT — this includes selling land plots, handing over the property to the assignee and some other operations.
2. Handing over the goods on the territory of the Russian Federation (carrying out works, providing services) for one's own needs, costs of which are not deductible (including automatic deductions) when calculating tax on the profits of organisations.
3. Carrying out construction and installation works for personal use.
4. Importing goods into the territory of the Russian Federation and other territories that are under its jurisdiction.

Tax rates:

- 0% when selling:
  - Goods that have been exported through customs as well as goods that have been subject to customs control procedures in the free customs zone;
  - Certain goods (works, services), for instance, oil and natural gas transportation services;
- 10% when selling certain food products, children products, periodicals and books, medicine and medical products;
- 18% in all other cases.

A quarter of the year is considered to be a tax period.

VAT that is paid into the budget is subject to deductions, if an organisation is obtaining goods, having works done and receiving services that include VAT payments determined by the seller payable within the cost of the product. Deductions are used in relation to VAT that has been paid when the goods were imported into the territory of the Russian Federation through customs control for domestic consumption, temporary import and processing outside the customs control or when importing goods that are being transferred through Russian boarder without customs clearance in relation to:

- Goods (works, services) and ownership rights that are obtained for the implementation of operations that are considered to be the objects of taxation;
- Goods (works, services) obtained for resale.

Some organisations and individual entrepreneurs might be exempted from paying VAT. In order to be exempted, they must apply for so called special tax regimes to the tax authorities and pay taxes in a simplified order, where a number of different payments are replaced with one single payment. Using these benefits is very often beneficial to the entrepreneurs; however, in order to receive these, the candidate must possess certain characteristics established by law. Further details about this are described below.

2.3. Corporate Income Tax

Income tax payers are the following:

- Russian organisations;
- Foreign organisations that perform their business activities in the Russian Federation through permanent representation offices and (or) receive income from other sources in the Russian Federation.

In order to calculate and pay income tax, organisations can unite into consolidated groups. Responsible participants, who are considered as taxpayers in relation to consolidation group income tax, are designated in these groups. Formation of these consolidation groups is possible only by making special agreements with tax authorities.

Objects of organisational income tax taxation are:

- For Russian organisations — received income that is reduced by the amount of the incurred expenses;
- For foreign organisations performing business activities in the Russian Federation through permanent branches — income received from these permanent branches, reduced by the amount of the expenses incurred by these permanent representation offices;
- For other foreign organisations — income received from other sources in the Russian Federation.

Total tax rate is 20%, where 2% is credited into the federal budget, 18% — in the budget of the subjects of the Russian Federation.

According to the law, tax rate of the subjects of the Russian Federation can be reduced for certain taxpayer categories in the amount of taxes that are subject to crediting into a regional budget. However, in this case, the rate cannot be lower than 13.5%.

There are special tax rates set in relation to certain income types.

Tax period — a calendar year.

Accounting period — first quarter, half and nine months of the calendar year.

Accounting periods for taxpayers deducting monthly advance payments based on the actual profits received are a month, two months, three months and so on until the end of the calendar year.

In certain cases, corporate income tax can also be replaced by a total payment according to a specially selected tax regime.

Type of Income	Tax Rate	Budget
Income of foreign organisations that is not related to the activities in the Russian Federation through permanent representation offices	20%	Federal
Income of the foreign organisations that is not related to activities in the Russian Federation through permanent representation offices from using, maintaining and renting mobile vehicles or containers in relation to international transportations	10%	Federal
Income received in the form of dividends by Russian organisations from Russian and foreign organisations: — total rate; — rate when following certain conditions	 13% 0%	Federal
Income received in the form of dividends by foreign organisations from Russian organisations	15%	Federal
Income in the form of interest on state and municipal securities	15%	Federal
Income in the form of interest on municipal securities emitted for a time period that is not less than 3 years before 01.01.2007, as well as other income	9%	Federal
Income in the form in interest on state and municipal bonds emitted before 20.01.1997 including	0%	—
Profits received by the Bank Of Russia from implementing activities related to performing functions established by the federal law on "Central Bank of the Russian Federation"	0%	—
The tax base of the organisations performing medical and (or) educational activities (except the tax base on dividends and operations with certain types of debt obligations)	0%	—
The tax base on the operations related to the selling or other disposal (including paying off) of the shares in the authorised capital of Russian organisations, as well as some categories of the shares of Russian organisations	0%	—

2.4. Special Tax Regimes and Other Taxes

Severance Tax

Severance tax is a direct federal tax levied on subsoil users. Severance tax payers are subsoil users — organisations (Russian and foreign) and individual entrepreneurs.

In Russia, almost all minerals (except more common ones: chalk, sand, certain types of clay) belong to the state, and in order to extract these minerals, one must obtain a special permission and register as a severance tax payer.

Taxpayers pay severance tax according to the location of the minerals provided for them to use. If the extraction of minerals is carried out in the continental shelf area or outside the Russian Federation (if the territory is under Russian jurisdiction or is rented out by it), the user is registered according to the location of the organisation or according to the place of residence of the individual. The tax base is the cost of the extracted minerals (for all minerals except oil and natural gas). The tax base for oil and natural gas is the amount of the extracted mineral.

Property Tax

Tax on the property of organisations is a regional tax, the object of which is considered movable and immovable property that is recorded on the balance sheet as a fixed asset. Land plots are not subject to this tax, as land plot owners pay a separate land tax.

Permanent representation offices of foreign organisations also pay property tax.

The tax base is calculated from the average annual value of the property that is recognised as the object of taxation. The average annual value of the property is the amount that is calculated according to the data on property cost that is kept in the accounting records of the organisation. As a rule, the average annual value of the property is considerably lower than the market price; therefore, the amount of tax payable is not normally big.

However, on the basis of the number of property objects, the tax base is calculated as the cadastral value of the object. Cadastral value is a cost that is calculated on the basis of the results from cadastral state evaluation of the property that is carried out not more often than once in three years and at least once in 5 years. Cadastral value is close to the market value of the property object; therefore, the amount of tax payable in this case is considerably bigger than the tax on the basis of the average annual value of the property.

The property objects, whose tax base is calculated from the cadastral value, are the following:

- Administrative and business centres and shopping centres including their premises;
- Non-residential premises that are intended for the accommodation of offices, retail properties, catering facilities and consumer services or for the actual use of office accommodation, retail properties, catering facilities and consumer services;
- Immovable property objects of foreign organisations that do not perform business activities in the Russian Federation through permanent representation offices;
- Immovable property objects of foreign organisations that do not belong to the business activities of these organisations in the Russian federation through permanent representation offices;
- Residential buildings and living spaces that are not recorded on the balance sheets as the objects of fixed assets in the order that has been set for accounting.

The tax is paid according to the location of the property that is the object of taxation. If the property is located outside the location of the organisation or as a separate branch of the foreign organisation, the taxpayer must register at the address of the taxable property.

Tax period is a calendar year.

Tax rates are set by the law of the subjects of the Russian Federation and cannot be more than 2.2% of the tax base.

Transport Tax

Transport tax payers are organisations and individual who have vehicles registered in their name.

The objects of taxation according to the legislation are vehicles including water and air vehicles that are registered in a set order.

The criteria for the vehicle not to be considered as a taxation object are the following:

- Intended use of the vehicles (commercial sea and river vessels; specially-equipped cars for disabled people);
- Ownership of the vehicles by certain types of tax payers (planes and helicopters belonging to air ambulance and medical services, vehicles belonging to the federal authorities of the executive power, where military service and services similar to those are legally provided; sea, river and air vessels of the organisations, whose main business activity is transportation);
- Ownership and full use of the vehicles (vehicles registered in the name of agricultural producers and used during agricultural activities in order to produce agricultural products).

Transport tax period is a calendar year.

Tax rates are set by the law of the subjects of the Russian Federation accordingly depending on the engine power, jet engine thrust or gross tonnage of the vehicles, categories of the vehicles according to the horsepower of the engine of the vehicle, one kg of the thrust of the jet engine, one register ton of the vehicle or one vehicle unit.

Tax rates set by the Tax Code can be increased (reduced) by the laws of the subjects of the Russian Federation but no more than 10 times.

Trade Tax

Trade tax is a municipal tax that is levied on the trade of a number of movable and immovable property objects. These objects include:

- Objects of the stationary trading network that do not have salesrooms (excluding the objects of the stationary trading network that do not have salesrooms and are petrol stations);
- Objects of the non-stationary trading network;
- Objects of the stationary trading network that have salesrooms;
- Trading that is performed through releasing the goods from the warehouse.

Trading tax payers are organisations and individual entrepreneurs who use the objects mentioned above in their trading activities on the territory of the municipality, where the trade tax is established. Taxpayers who apply the patent taxation system or a single agriculture tax in relation to the types of trading described are relieved from trade tax.

In order to apply trade tax, trading activities are compared to organisational activities in retail markets.

Tax trade taxation period is a quarter of the year.

Tax rates are set by the normative legal acts of the municipalities in rubles per quarter calculated for the trading object or for its area. In the cities of federal importance: Moscow, St. Petersburg and Sevastopol — tax rates are set by the laws of the subjects of the Russian Federation mentioned above. Tax rate cannot be more than the estimated amount of tax payable in the relevant municipality in relation to applying the patent taxation system based on the patent in the relevant business activity issued for 3 months.

Tax rate on the organisation activities of the retail markets cannot be more than 550 rubles per 1m2 of the area of the retail market. This rate is subject to yearly indexing.

Differential rates can be set by the normative legal acts of the municipalities depending on the territory where certain trading activities are performed, category of the tax payer, specifications of performing certain trading types, as well as specifications of the trading objects. The tax rate can be reduced to zero here.

Special Tax Regimes

There is a general taxation regime for organisations and individual entrepreneurs, but, if they have the right to change their taxation regime, they can apply any special tax regime depending on the specifications of their activities. There are five of these regimes:

1. Simplified taxation system.
2. Taxation system in the form of a single tax on imputed income for certain types of activities.

3. Taxation system for agricultural producers (a single agricultural tax).
4. Taxation system when the production sharing agreements are implemented.
5. The patent taxation system.

Simplified Taxation System (STS)

The scope of STS — it is the activities of the small enterprise subjects, whose profit levels do not exceed those established by the legislation. Organisations and individual entrepreneurs have the right to apply the simplified system if, at the same time, they meet the criteria of the average number of employees and profits on the results of the first 9 months of the year, when the taxpayer gives notice to transfer to the simplified taxation system (the number of employees cannot be more than 100, the profit amount cannot be more than 45 000 000 rubles). The system is characterised by replacing a number of payments with one or two taxes via the simplified deduction procedure.

In addition to the quantitative criteria mentioned above, there are number of other restrictions related to the type of the activities and taxpayer's status for transferring to STS. Foreign organisations do not have the right to apply STS. Restrictions are also set for the organisations, in which the participation of other organisations is more than 25%.

The transfer to STS is voluntary for the taxpayer that meets all the required criteria. Typically, organisations and individual entrepreneurs who have expressed their interest to transfer to STS next year, apply to the tax authority at their location (place of residence) in the time period from 1st October until 31st December in the current year. As the tax authority does not give any special permission for this, the transfer to STS is declarative.

The taxpayer chooses which taxation object they will use according to STS. The objects can be:

- Income;
- Income reduced by the amount of the expenses.

Tax rate levied in relation to STS use depends on the object chosen by the taxpayer:

- 6% — If the object of taxation is income (certain subjects of the Russian Federation can set differential rates from 1–6% on their territory depending on the category of the taxpayer);
- 15% — If the object of taxation is income reduced by the amount of the expenses (certain subjects of the Russian Federation can set differential rates from 5–15% on their territory depending on the category of the taxpayer).

On their territory, the subjects of the Russian federation have the right to pass a law on applying the tax rate of 0% for individual entrepreneurs who have been registered for the first time after such law has been enforced and who perform business activities in production, social and (or) educational fields, as well as in the field of the consumer services to the society. In the cities of federal importance Moscow and St. Petersburg these laws are in place from 25.03.2015 and 01.01.2016 accordingly. The tax rate of 0% can be used by the taxpayers from the day of their state registration as individual entrepreneurs continuously for 2 tax periods (so called "tax holidays").

The tax levied in relation to STS use is calculated by the taxpayer only (tax agents and tax authorities do not have the authority to do so). The tax period is a calendar year; reporting periods — first quarter of the year, half-year and nine months of the calendar year.

Management subjects who pay tax according to the simplified taxation system are exempt from the duties of accounting and reporting, and they keep records in the ledger of income and expenses of the organisation.

The taxpayer loses the right to use STS if, according to the results of the calendar year, their income is more than 60 million rubles or if the average number of employees is more than 100.

Taxation System for Agricultural Producers (a Single Agricultural Tax or SAT)

This tax regime is designed for the use by agricultural producers exclusively. These are organisations and individual entrepreneurs that produce, process and sell agricultural products. SAT is applied when parts of the income from the sale of the agricultural products produced by them, including its primary processing products that are produced by them from raw materials of their own production form not less than 70% of the total income of these organisations and individual entrepreneurs.

Agricultural products include: crop, forestry and livestock products; catches of water biological resources.

SAT replaces the payment of VAT, income tax, property tax. Individual entrepreneurs who have transferred to SAT are not considered as individuals paying income tax (in relation to income received from business activities, excluding the tax payable on the income in the form of dividends).

The same as in the case of STS, the transfer to paying SAT is voluntary and declaratory. The rate of a single tax for the producers of agricultural products is 6% from the income received from the sale of agricultural products.

The Tax Code of the Russian federation provides cases when an organisation (individual entrepreneur) has no right to transfer to SAT. Typically, organisations and individual entrepreneurs that cannot transfer to SAT:

- Produce excisable goods;
- Treasury, budget and autonomous institutions;
- Transferring to the taxation system in the form of a single tax on imputed income for certain types of business activities.

SAT is calculated by the taxpayer only. The tax period of SAT is a calendar year; reporting period — a half-year.

Taxation System in the Form of a Single Tax on Imputed Income for Certain Types of Business Activities (STII)

Taxation system in the form of a single tax on imputed income for certain types of business activities is another special tax regime. However, STII is not going to be used anymore starting from 1st January, 2018.

STII is a taxation system for certain types of business activities. Exactly activities and not legal entities or entrepreneurs; therefore, STII does not replace other taxation systems. STII can be used by the taxpayer for several types of their activities while at the same time using general, simplified or patent taxation system for other business activities.

The main difference of STII is that the tax is deducted not from the actual received income but from the imputed income that is a potentially possible, calculated taking into account

a combination of factors that directly affect the receipt of this income and usable for calculating the amount of a single tax according to the set rate.

Taxation system in the form a single tax on imputed income for certain business activities can be used based on the decision of the authorities of the subject of the Russian Federation in relation to the following types of business activities:

- Domestic services;
- Vet services;
- Services of decorating, maintenance and car wash;
- Services of offering and selling parking spacesy for vehicles and of looking after the vehicles in the chargeable car parks;
- Motor transport services for transporting passengers and freight that are provided by individual entrepreneurs who have the ownership right to use, own and (or) manage not more than 20 transport vehicles designed for providing these services;
- Retail trading implemented through shops and shopping centres with the shop floor area that is not more than 150 m^2 for each object;
- Retail trading implemented through kiosks, tents, stalls and other objects of the stationary trading network that do not have shop floors as well as objects of the non-stationary trading network;
- Providing catering services implemented through the objects of catering organisations (excluding providing catering services by educational institutions, health and social security) with a floor area that is not more than 150 m^2 for each object;
- Catering services implemented through the objects of catering organisations that dot have a room for serving clients;
- Promoting and distributing outdoor advertising;
- Other services whose closed list is provided by the Tax Code of the Russian Federation.

An entrepreneur or an organisation have the right to transfer to paying STII if this tax is introduced in the town or region where the taxpayer performs their activities and if a merchant performs activities that are taxed on imputed income.

The taxpayers do not have the right to use STII if the average number of employees in their organisation is more than 100 per calendar year. This restriction also applies to organisations where the participation of other organisations in their activities is more than 25%.

When paying tax on imputed income, organisations and entrepreneurs are exempted from paying the following types of taxes:

- Value added tax;
- Income tax for individuals and income tax for organisations (on the income received from the activities that are taxed by STII);
- Property tax (on the property used in business activities that is taxed by STII).

Besides, the taxpayer who pays STII is reducing the tax amount for the relevant reporting period by the amount of contributions paid into pension, compulsory social and medical insurance in this tax period as well as by the amount of social benefits paid to the employees who participate in the business activity that is taxed by STII. STII rate is 15% from the amount of imputed income. STII is calculated by the taxpayer only. The tax period of STII is a quarter of the year.

Taxation System when the Production Sharing Agreements are Implemented

This special tax regime establishes special rules for taxation in mining by the individuals who have made production sharing agreements (hereinafter — PSA). PSA is an agreement according to which the Russian Federation, on a commercial basis and for a certain period of time, provides the subject of business activities (investor) with exclusive rights to search, research, extraction of minerals in the subsoil that is specified in the agreement and to carry out related works. Investor, on the other hand, undertakes the conduct of the specified works at their own expense and at their own risk. The agreement determines all the necessary conditions related to the use of subsoil including the conditions and procedure for sharing the manufactured products between the parties.

Investor's income from implementing PSA that includes the tax base on income tax payable by the investor is considered to be the cost of the profitable products that belong to the investor according to the conditions of the agreement.

Parties to PSA are exempted from paying organisational property tax in relation to the assets that are described on the balance sheet of the taxpayer and used exclusively for performing activities provided by PSA. Investors are also not recognised as the payers of transport tax in relation to the vehicles used exclusively for the purposes of PSA.

The amount of value added tax, payments for using natural resources, water tax, state fees, customs dues, land tax, excise as well as the cost for causing negative impact on the environment paid by the investor is eligible for reimbursement from the budget.

There are now only three product sharing agreements actually active in the Russian Federation. Two of those — "Sakhalin-1" and "Sakhalin-2" are the projects of exploring the shelf in Sakhalin, the third one represents the exploration of Kharyaga location that is situated in the Nenets Autonomous Okrug.

Patent Taxation System

Taxation system in the form of obtaining a patent is not a new system in the Russian law; however, it was highlighted as a separate tax regime applied exclusively by individual entrepreneurs only in 2012.

The patent system is used by the entrepreneurs whose activities concentrate on service delivery. The list of their types is pointed out in the law, but, at the same time, it is subject to broad interpretation. Typically, a patent can be obtained for decorating and sewing fur and leather products, headgear and textile haberdashery products, knitwear, repair, cleaning, footwear painting and sewing, hairdressing and beauty services, dry cleaning services, furniture repair, home repair and other building works. Specific services, during the delivery of which entrepreneurs can use a patent, are determined by the authorities of the subjects of the Russian Federation.

Individual entrepreneurs who have transferred to the patent taxation system do not pay:

- Value added tax;
- Income tax for individuals received from the activities that are taxed according to the patent system;

- Property tax for individuals on the properties that are used for the activities that are taxed according to the patent system.

The tax rate when using the patent taxation system is 6%.

The transfer to the patent taxation system is voluntary, but, unlike other special tax regimes, it is not declaratory. An individual entrepreneur who is planning to perform their business activities via patent must send an application to the tax authority by post or send it electronically. After the application is processed (this takes about 5 days), the tax authority issues a patent to the entrepreneur or informs them about the refusal to issue the patent. The reason for refusal could be false information provided on the application, incorrect specification of the validity of the patent (the patent can be issued for at least 1 month and for not longer than 12 months within the calendar month), the applicant has already lost their right to the patent for the same type of business activity at least 12 months ago before applying, the applicant has arrears for other received patents.

As a general rule, the tax period is a calendar year, but if the patent was issued for a shorter period of time, the tax period is the length of time the patent was issued for.

Individual entrepreneur loses the right to using the patent taxation system in the following situations:

- If in the beginning of the calendar year the taxpayer's income from all types of business activities in relation to which they have been issued a patent are more than 60 million rubles;
- If the average number of employees in the tax period is more than 15;
- If the taxpayer misses tax payment dates.

2.5. Transfer Pricing

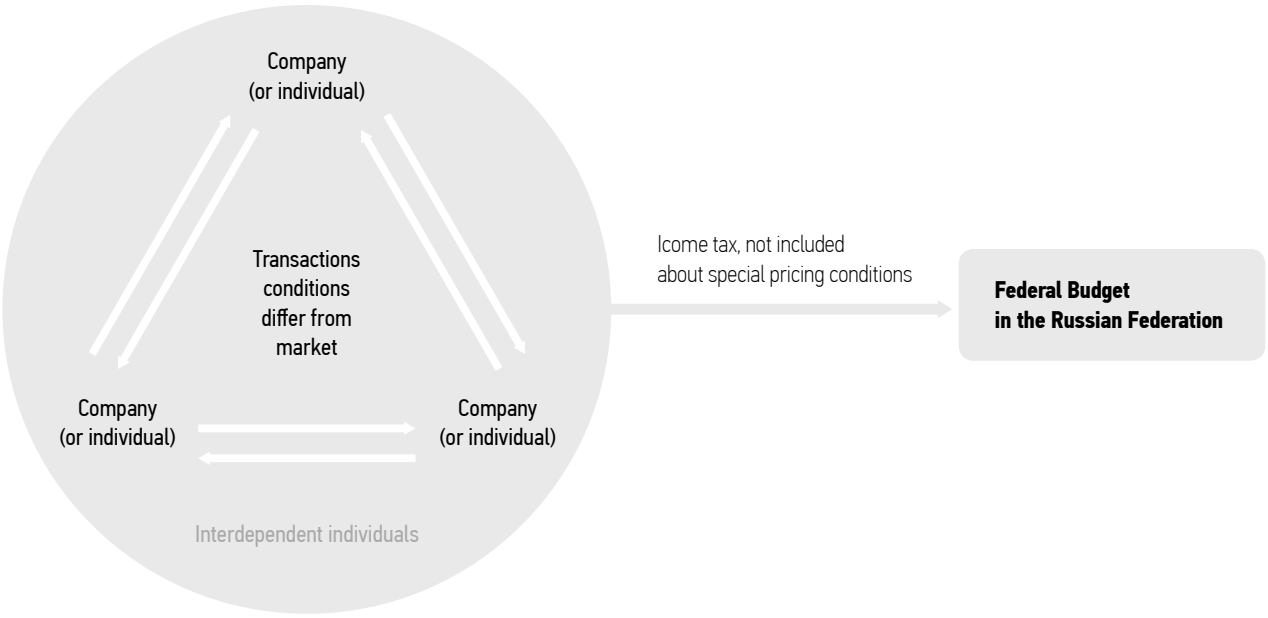
Transfer prices are prices that are used inside the company groups between interdependent (associated) individuals and are different from market prices. If between these organisations conditions that are different from those that would be set between independent individuals are created or set in their commercial and financial relationship, any profits that would be given to one of them but haven't been given because of the conditions in place can be included in the income of this individual and taxed accordingly.

The Tax Code of the Russian Federation contains a chapter that regulates the issues of transfer (that is in-house) pricing and tax control in the field. This applies in the situations when tax authorities, who audit the organisation, consider the price to be non-market and impose tax consequences (additional charge of taxes, penalties, fines and other accountability measures) based on the market price determined by them.

Only transactions between interdependent individuals are controlled.

There is a closed list of the grounds for unambiguous (without a court appeal) recognition of the individuals as interdependent. The list contains 11 points (grounds) that, in general, present some kind of quantitative and qualitative forms of the participation of one individual in the capital of the other. Besides, in order to qualify for an interdependant, the participation can be both direct and indirect. The following transactions are also considered to be the transactions between interdependent individuals: transaction where the participants are mediators, transactions in the field of external trade of the products of the world's stock trade, transactions where one of the parties is an individual whose location of registration, residence and taxed residence is the state or the territories included in the list of the states and territories determined by the Minister of Finance in the Russian Federation or a Russian organisation that has a permanent representation office in such state or on such territory.

Transactions between interdependent individuals automatically become controlled if at least one of the parties of the transaction is not registered, not being a resident of Russia or not having a taxed residence in Russia. If all the parties of the transaction and its beneficiaries have their own registered location or a place of residence, or a place of taxed residence in Russia, such transactions are controlled if:



1. The amount of the profits from the transaction (all transactions) between the individuals mentioned above is more than 1 milliard per relevant calendar year.
2. At least one of the parties is using SAT or STII (if the relevant transaction is made during such activity), and there is an individual amongst other individuals, who are being parties to the transaction, who does not use special tax regimes mentioned above, and the amount of profits from the transactions between these individuals is more than 100 million rubles per relevant calendar year.
3. One of the parties is the taxpayer of Severance Tax that is deducted according to the tax rate that is set in percentages, and the subject of the transaction is extracted minerals that are recognised as a taxation object of Severance Tax for this party and during the extraction of which taxation is made according to the tax rate set in percentages.
4. At least one of the parties is exempted from the taxpayer's duties on paying organisational income tax or is using a tax rate of 0% for the tax base of the income tax. At the same time, the other party is not exempted from these duties and does not use the tax rate 0%.
5. At least one of the parties is a resident of a special economic zone, where the tax regime provides special organisational income tax benefits (in comparison to the general tax regime in the relevant subject of the Russian Federation). At the same time, the other party is not (are not) a resident of this special economic zone.

Last three types of transactions are controlled if the amount of income from them is more than 60 million rubles per relevant calendar year.

Implementing control on using the prices during transactions between interdependent individuals and on other controlled transactions is assigned to the tax authorities in specific subjects of the Russian Federation. Control means the duty of the taxpayer to notify tax authorities about the controlled transactions made by them in the calendar year, as well as conducting special documentary checks by the tax authorities.

2.6. Controlled Foreign Companies

Since 2015, Russia has had legislation on taxation of the income of the foreign companies that are controlled by tax residents in Russia. These norms also apply to trusts, funds, partnerships and other formations in foreign jurisdictions that do not have the status of a legal entity.

The following are considered to be controlled individuals of foreign organisations:

1. Individuals and legal entities whose participation in these organisations is more than 25%.
2. Individuals and legal entities whose participation in these organisations (for individuals with their spouses and dependent children) is more than 10%, if the participation of tax residents of the Russian Federation in these organisations (for individuals with their spouses and dependent children) is more than 50% in total.

Implementation of control on organisations is providing influence on decisions that are made in this organisation in relation to distributing the profits (income) received by the organisation.

The profits of the controlled foreign company (structure without the formation of a legal entity) is similar to the profits (income) of the controlling individual and is taken into consideration when calculating the tax base for the income tax (income of the individual). The profits of the controlled foreign company are reduced by the amount of the distributed profits. At the same time, the minimal amount of the profits of the controlled foreign company that is taken into consideration when calculating the tax base of the controlling individual is 10 million rubles[2]. The amount of profit is calculated in one of the following ways:

1. Based on the data from financial statements that are prepared in accordance with the personal law of the foreign company in the financial year. This option is applied if the company is located in a state that has made an agreement with Russia on avoidance of double taxation or if there is an audit report that does not contain a negative opinion or refusal to express an opinion in relation to the financial statements of the company.
2. Based on the rules set by the Tax Code of the Russian Federation for taxpayers of Russian organisations.

There are number of categories of controlled foreign organisations whose profits are exempted from taxation in the Russian Federation set by law:

1. Non-profit organisations that do not distribute profits between the shareholders (participants).
2. Organisations that have a permanent location in Eurasian Economic Union.
3. Effective taxation rate of the organisation in relations to its personal law is not less than 75% of the average rate on income tax according to the Tax Code of the Russian Federation.
4. An organisation receives profits from active activities (unlike from passive income: dividends, interest, royalties).
5. Banks and insurance organisations that perform activities under license.
6. An organisation that is an issuer of traded bonds.
7. An organisation is a party to the Product Sharing Agreement.

In order to use exemption according to the conditions mentioned above, the taxpayer that is implementing control on a foreign organisation must submit documents confirming that the organisation meets these criteria to the tax authority at the location they are registered in.

Tax residents of the Russian Federation that are recognised by the controlling individuals of foreign organisations (structures without the formation of a legal entity) must hand in relevant notice to the tax authority at the location they are registered in. The notice must be handed in no later than 20th March of the year following the tax period where the income in the form of profits of the controlled foreign company is recognised by the controlling individual.

2. 50 million rubles in 2015, 30 million rubles in 2016.

2.7. Conception of the Actual Income Receiver

According to Russian law, the actual income receiver is an individual who is actually receiving benefits from the income paid and decides on its further economic destiny. This might be either an individual or a legal entity. In light of legislation on controlled foreign companies, every element of the holding structure must prove its economic value and the actual right to receiving the income, as otherwise they would not be able to use the benefits of international agreements on the avoidance of double taxation.

The tax agent in Russia that is paying out the income to foreign organisations has the right to request the confirmation about the foreign company having the actual right to receiving the income. The documents that can pass as the confirmation of having the actual right to receive income are not regulated by law. Nevertheless, if the foreign organisation cannot provide this confirmation, the tax agent must withhold tax without applying the conditions of the agreement on avoidance of double taxation with the state where the foreign organisation is located.

In order to prove the actual right to receive income, every company of the holding structure must be empowered to manage the assets and to make business-related decisions. The risks that come with making these decisions also distinguish actual income receiver from nominal income receiver. In other words, the company must prove their real economic activity.

The actual receiver of the income who is a tax resident in the Russian Federation can be exempted from paying income tax (profits of organisations) on the amounts received in the form of dividends from foreign organisations. This benefit is applied if this amount has been taxed according to the rates set by the Tax Code of the Russian Federation, when it was paid out by the source in Russia in favour of the foreign organisation.

2.8. The Status of the Tax Resident of the Russian Federation

Tax resident for the purpose of calculating tax on individual income is an individual who have actually lived in the Russian Federation at least 183 calendar days in the time period of 12 consecutive months. The period of living in Russian is not interrupted by leaving the territory of the Russian Federation for short term (6 months) medical treatments and education.

The following organisations are considered to be the tax residents of the Russian Federation:

1. Russian organisations.
2. Foreign organisations that are recognised as tax residents of the Russian Federation according to the international contract (agreement) with the Russian Federation on avoidance of double taxation with a purpose to use this international agreement.
3. Foreign organisations that are regulated by the Russian Federation. The Russian Federation is recognised as the regulating body of the foreign organisation if at least one of the following conditions is fulfilled:
   - Executive body of the organisation regularly performs its activities in relation to this organisation from the Russian Federation;
   - Individuals that are empowered to plan and control the activities, manage the activities of the organisation and being liable for this predominantly perform leadership activities of this foreign organisation in the Russian Federation.

However, if the foreign organisation is receiving income from active activities (unlike from passive income: dividends, interests, royalties), it can be recognised as a tax resident of the Russian Federation only voluntarily, even if the conditions mentioned above are being fulfilled in relation to this.

§3. Accounting and Audit

Accounting Organisation in Russia

Legislation on accounting in the Russian Federation consists of:

- Federal law №402-FZ of 06.12.2011 on accounting establishing legal and methodological foundations of the organisation and management of accounting in the Russian Federation;
- Other federal laws and regulations that ensure consistency in managing property registration, duties and business operations, compilation of reliable information on property status of the organisation, its income and expenses, accounting that the users require.

Legal regulations in the field of accounting are implemented by the Minister of Finance in the Russian Federations who confirms compulsory regulations that all the organisations on the territory of the Russian Federation must comply with:

- Accounting plans and instructions on how to apply them;
- Accounting conditions (standards) that set the rules for management of business operations and doing accounting;
- Accounting forms and instructions on how to fill them in;
- Other regulations and instructions on accounting issues.

There is an opportunity for the subjects of the small enterprise to apply the simplified system of income and expense accounting.

Accounting is done continuously from the moment the organisation is registered until the day it is closed down or reorganised through double entry book-keeping. Every step of business activities must be formalised with primary accounting documents according to which accounting is done. On the basis of the primary accounting documents, accounting summary documents are prepared. In order to implement control, all accounting documents must have paper or electronic copies. Accounting documents are stored for at least 5 years from the moment when the relevant accounting period is finished.

Accounting is done in rubles. Accounting of currency accounts and operations in a foreign currency in the organisation is done in rubles on the basis of foreign currency translation at the rate of the Bank of Russia as of the date of the operation.

Accounting policies adopted by the organisation are approved by the order or request of the manager (an individual who is responsible for organising accounting). The

following are approved by the order: working plans of the accounting; forms of accounting documents; inventory implementation procedure and methods for property and obligation evaluation; rules for document flow and information processing; the procedure for implementing control on business operations and other decisions that are required in order to organise taxation and accounting.

Reporting period is a calendar year. Accounting reports consist of the balance sheet, financial statements, relevant appendices that are specified in the regulations. Where necessary, accounting reports must be confirmed by the audit report.

All organisations provide accounting reports to the participants of the organisation or the owners of its property, as well as to the territorial bodies of statistics and tax authorities at the place they are registered in the order that is specified by legislation of the Russian Federation and in the constitutive documents. Public liability companies, banks and other credit organisations, insurance organisations, stock exchange, investment funds must publish their yearly reports in the newspapers and magazines, as well as online.

Branches, subsidiaries and other structural subdivisions of the foreign organisations that are located on the territory of Russia must do accounting as independent business subjects according to Russian legislation unless otherwise specified in the international agreements of the Russian Federation. Branches, subsidiaries and other structural subdivisions of foreign organisations can do accounting following the rules set in the country of the location of the foreign organisation, if these rules do not contradict with the international standards of the financial reporting (hereinafter — ISFR), established by the Committee of the international standards of the financial reporting. When doing accounting according to the rules set in the country of the permanent location of the company, complications in forming reporting indicators may arise. Currently, all accounts of the Russian accounting system are correlated with the balance sheet reports that are compliant with the international standards of financial reporting.

The Differences Between Russian Accounting and ISFR

Currently, the transfer of Russian organisations to international standards of financial reporting (ISFR) has become topical. This is caused by the recognition of ISFR as one of the main instruments that guarantees transparent and standardised information on the financial situation in the company that is presented to a wide circle or stakeholders including those abroad.

International standards of financial reporting represent a significant international system of generally recognised principles of accounting. Unlike Russian standards, ISFR provide an informal but the most realistic reports on the current situation in the company, because the main difference between these two accounting systems is the asset and obligation evaluation principles and the correlation of the income and expenses with the reporting period.

Main differences between ISFR and Russian standards of accounting (hereinafter — RSA) are related to historical differences in the main purpose of using financial information. Financial reporting prepared in accordance with ISFR is used by investors as well as other enterprises and financial institutions. Financial reporting that is prepared in accordance with the Russian accounting system is used by the state leadership and statistics authorities. In reality, those who prepare reports according to ISFR strive to meet fiscal targets as a priority.

The essence of the fair value concept according to ISFR is about giving the user the information on the financial situation and results of company activities based on its existing price. Only residual value is specified in the Russian report.

In ISFR, according to the concept of the economic content priority over legal forms, it is not very important what legal form the event of business activity refers to. It is important that it is presented from the economic point of view. Russian accounting comes from the unity between economic content and legal forms, and occasionally from the priority of the legal form over economic content. In this way, the procedure for report preparation according to RSA is based on fulfilling instructional conditions and requirements of the regulating bodies.

In the Russian Federation, banks and other credit organisations are obliged to prepare consolidated financial statements in accordance with ISFR. The ISFR implementation process in the field of real economy confirms that, at the moment, only large enterprises provide these reports voluntarily (or when they enter international markets). Currently, more than two thirds of 100 largest Russian companies implement and perform audit and publish reports according to ISFR.

To conclude, we would like to mention that ministry of finance of the Russian Federation is planning to very closely

Statement in accordance with Russian standarts of accounting (RSA)	Statement in accordance with international standards of financial reporting (ISFR)
Used by the state leadership and accounting system	Used by investors as well as other enterprises and financial institutions
Provide only residual value of assets	Prepared in accordance to the concept of the fair value
Comes from the unity between economic content and legal forms of business activity	Prepared in accordance to the concept of the economic content priority over legal forms of business activity
Prepared by overwhelming majority of business subjects	In the Russian Federation, banks and other credit organisations are obliged to prepare consolidated financial statements; other provide voluntarily

match local accounting with ISFR in the next few years by gradually renewing the actual accounting standards. Therefore, all the companies that do accounting and prepare reports will be transferred to the international standards in the near future.

Submitting Reports

Accounting reports in general are reports that consist of the forms approved by state authorities where the information on organisational activities per calendar year is entered. The taxpayer must submit the forms that are filled in on the basis of the accounting data to the tax authorities, bodies of statistics and other state institutions at the place they are registered or at the place of residence for a period of time established by law.

As a general rule, the companies have two options:

- To hand over accounting and report preparation to another organisation that is outsourcing;
- To do accounting and prepare reports by themselves.

The list of documents of accounting reports depends on the tax regime chosen by the company: general or special tax regime (STS, STII, SAT, taxation system when making product sharing agreements, patent system).

The company must submit the annual report to the tax authorities at the place they are registered or place of residence no later than 31st March of the year following the reporting year. The interim accounting reports for the time period of less than a year are prepared in the number of cases when the obligation of its representation is established by legislation of the Russian Federation[3], contracts, constitutive documents or decisions of the owner of the economic subject.

If the company is using any special tax regime, the reports will consist only from balance sheets and financial statements. These documents must be submitted to the tax authorities no later than 31st March of the year following the reporting year.

Audit in Russia

Audit is an independent check of accounting (financial) reports of the audited body with a purpose to express a view about the reliability of these reports.

An auditor (or an auditing organisation) also provides additional services related to client consulting on tax, banking, financial legislation issues, on preparing calculations or tax declarations, doing accounting.

Traditional line of activity of auditing organisations is working with financial statements of business subjects: evaluating financial situation, preparing financial forecasts, financial consulting on choosing the ways for raising capital, distributing temporarily available money resources.

An auditing organisation performs works on contractual basis. Business subject independently chooses an auditing organisation that, based on the agreement with the client, determines directions and conditions for order implementation according to the agreement on providing auditing services.

There are two types of audit: mandatory and voluntary audit.

Mandatory audit is carried out yearly in the following cases:

- If the organisation has an organisational legal form of a joint stock company;
- If the securities of the organisation are admitted to trading on fund stock market and (or) other trade organisers on the securities market;
- If the organisation is a credit organisation, a credit information bureau, an organisation that is a professional body on the securities market, an insurance organisation, a clearing house, a mutual insurance company, commodity, exchange and stock market, non-state pension or other fund, equity investment fund, a management company for equity investment fund, mutual investment fund or non-state pension fund;
- If the amount of revenue from the sale of products (sale of products, performing works, providing services) of the organisation (excluding public authorities, local authorities, state and municipal institutions, state and municipal enterprise, agricultural corporations, unions of these corporations) per reporting year is more than 400 million rubles or the amount of assets of the balance sheet as of the end of the reporting year is more than 60 million rubles;
- If the organisation (excluding public authorities, local authorities, state off-budget funds, as well as state and municipal institutions) presents and (or) publishes summary (consolidated) accounting (financial) reports.

Legislation does not specify direct responsibility for not conducting audit. A Russian taxpayer is not obliged to provide summaries with the yearly accounting (financial) reports to the tax authorities. However, Russian subjects of economic activities must submit yearly accounting reports to the state statistics authorities. If the audit summary reports that are part of the mandatory audit are not provided, state statistics authorities can cite the organisation and its leader or senior accountant for administrative violations, namely issue a warning or fine: 300–500 rubles for officials, 3 000–5 000 rubles for legal entities.

Voluntary audit is conducted based on the decision of the business subject in the volume and within the time period specified in the agreement between the auditor (auditing organisation) and its regulatory body. Voluntary audit checks are conducted based on the initiative of the business subjects (typically, based on the initiative of the shareholders, management of the organisation), as well as based on the requirement of the financial credit organisations (for instance, when receiving credit, making a collateral agreement), insurance companies etc. Besides the confirmation of the reliability of the accounting reports, the purpose of the voluntary audit can be: evaluation and forecast of the financial stability of the company, establishing a rational accounting policy, choosing the method for doing accounting, working out recommendations on improving financial situation and increasing the efficiency of company activities.

Audit that is conducted by special auditing organisation is an external audit. In large organisations, in internal audit is

3. For instance, insurance organisations and issuers of securities must prepare interim reports.

conducted along the external one. It is carried out by the staff members of the organisation who follow the instruction of its managers.

Substantially, internal audit presents the implementation of control function of the company management. The main task of the internal control is a constant control of expenses, evaluation of their lawfulness and effectiveness, determining production reserves, establishing the ways for reserve mobilisation.

§4. Agreements on Avoiding Double Taxation

The Russian Federation has made agreements with a lot of states on avoiding double taxation.

Currently, there are more than 70 international agreements (conventions, contracts). Along with the agreements made by the government of the Russian Federation, the agreements made by the government of the Soviet Union are still active.

International tax agreements are highly significant to tax planning. Besides the fact that they perform their direct function that is facilitate interstate commerce and remove double taxation, some of their conditions allow reducing the tax burden further for the groups of companies through the focus on business structuring.

First of all, we are talking about the conditions that apply to taxes withheld by the payment sources on passive income: dividends, interests, royalties, income from capital increase as well as on the income from international transportations. Normally, when these types of income are paid out to the partner located abroad, a resident of some countries must deduct and pay tax based on a certain rate into the treasury of their state. However, if there is an agreement between these two countries, the rate can be considerably reduced or the tax of the source might not be withheld at all.

The list of the active agreements of the Russian Federation and rates on passive income is presented below:

State	Tax Rates on Some Types of Income, %		
	Dividends	Interests	Royalties
Australia	5	10	10
	15		
Austria	5	0	0
	15		
Azerbaijan	10	10	10
Albania	10	10	10
Argentina	5	15	15
	15		
Algeria	5	15	15
	15		
Armenia	5	0	0
	10		
Belarus	15	10	10
Belgium[4]	10	10	0

4. New convention between the Russian Federation and the Kingdom of Belgium has been signed on 19.05.2015. When the new convention is enforced, the rates will change.

Bulgaria	15	15	15
Botswana	5	10	10
	10		
Great Britain	10	0	0
Hungary	10	0	0
Venezuela	10	5	15
	15	10	10
Vietnam	10	10	15
	15		
Germany	5	0	0
	15		
Greece	5	7	7
	10		
Hong Kong[5]	5	0	3
	10		
Denmark	10	0	0
Egypt	10	15	15
Israel	10	10	10
India	10	10	10
Indonesia	15	15	15
Iran	5	7,5	5
	10		
Ireland	10	0	0
Iceland	5	0	0
	15		
Spain	5	0	5
	10		
	15	5	
Italy	5	10	0
	10		

5. The agreement has been signed but has not been ratified and is not currently applied.

Kazakhstan	10	10	10
Canada	10	10	0
	15		10
Qatar	5	5	0
Cyprus	5	0	0
	10		
Kyrgyzstan	10	10	10
China	10	10	10
People's Republic of Korea	10	0	0
Republic of Korea	5	0	5
	10		
Republic of Cuba	5	10	5
	15		
Kuwait	5	0	10
Latvia	5	5	5
	10	10	
Lebanon	10	5	5
Lithuania	5	10	5
	10		10
Luxembourg	10	0	0
	15		
Macedonia	10	10	10
Malaysia	0	15	10
	15		15
Mali	10	15	0
	15		
Malta	5	5	5
	10		
Morocco	5	10	10
	10		
Mexico	10	10	10

Moldova	10	0	10
Mongolia	10	10	0
Namibia	5	10	5
	10		
Netherlands	5	0	0
	15		
New Zealand	15	10	10
Norway	10	0	0
		10	
Poland	10	10	10
Portugal	10	10	10
	15		
Romania	15	15	10
Saudi Arabia	5	5	10
Serbia	5	10	10
	15		
Singapore	5	7,5	7,5
	10		
Syria	15	10	4,5
			13,5
			18
Slovakia	10	0	10
Slovenia	10	10	10
USA	5	0	0
	10		
Tajikistan	5	0	0
	10	10	
Thailand	15	10	15
Turkmenistan	10	5	5
Turkey	10	10	10
Uzbekistan	10	0	0
		10	

Ukraine	5	10	10
	15		
Philippines	15	15	15
Finland	5	0	0
	12		
France	5	0	0
	10		
	15		
Croatia	5	10	10
	10		
Montenegro	5	10	10
	15		
Czech Republic	10	0	10
Chile	5	15	5
	10		10
Switzerland	5	0	0
	15	5	
		10	
Sweden	5	0	0
	15		
Sri Lanka	10	10	10
	15		
SA	10	10	0
	15		
Japan	15	10	0
			10


15:01
15:31
16:01

Chapter 4.
Currency Exchange Control

§ 1. General Provisions

There is a mechanism for currency exchange control created in the Russian Federation, whose main purpose is to provide the stability of the national currency and internal currency market. Regulations for currency exchange control determine what operations with a foreign currency are allowed and what operations are not allowed in accordance with Russian legislation.

Currency exchange control is implemented by the government and the Bank of Russia in the Russian Federation.

Individuals are considered to be currency residents of the Russian Federation if they are citizens of the Russian Federation or foreign citizens residing permanently in Russia on the basis of the resident permit. Legal entities are considered to be currency residents of the Russian Federation in cases when they are founded according to Russian legislation.

Currency non-residents are all individuals who do not meet residency criteria. A foreign citizen can become a currency resident of the Russian Federation if they receive a residence permit in Russia. Legal entities founded according to legislation of foreign states and that are located abroad have the currency non-residency status. Branches, subsidiaries and other separate subdivisions of these foreign organisations on the territory of Russia are also considered to be currency non-residents.

Calculations when carrying out currency exchange operations are produced by the currency residents of the Russian Federation through bank accounts in authorised banks that is Russian banks that hold the license of the Bank of Russia to carry out currency exchange operations. The residents have the right to transfer funds into their accounts (investments) in foreign banks from their accounts (investments) in the authorised banks of the Russian Federation or foreign banks without any restrictions.

The list of operations that individuals-residents can carry out through foreign banks is legally restricted. Restrictions apply to operations that are carried out through foreign banks between the residents of the Russian Federation. Only operations specified by law are allowed, namely:

- Transfers of the currency of the Russian Federation from resident's account opened outside the territory of the Russian Federation into the account of another resident opened on the territory of the Russian Federation, and from the resident's account opened on the territory of the Russian Federation into the account of another resident opened outside the territory of the Russian Federation;
- Transfers of the currency of the Russian Federation from the resident's account opened outside the territory of the Russian federation into the account of another resident opened outside the territory of the Russian Federation.

Currency exchange operations that are not related to property transfers and providing services on the territory of the Russian Federation using the funds deposited in the accounts (investments) in foreign banks are carried out between individuals-residents and non-residents without restrictions.

The following funds received from the non-resident can be transferred into the accounts of individuals-residents opened in foreign banks (regardless of the jurisdiction where the bank is situated):

- Funds paid out in the form of wages and other pay-outs related to performing work duties by the individuals-residents outside the territory of the Russian Federation according to the employment contract signed between them and non-residents;
- Funds paid out according to the decision of the court in foreign states excluding the decisions made by the international commercial arbitration;
- Funds paid out in the form pensions, scholarships, alimony and other social pay-outs;
- Funds in the form of insurance pay-outs implemented by the insurers-non-residents;
- Funds paid out as a refund of the money paid earlier by individuals-residents including refunds of money transferred by mistake.

The following can be transferred into the accounts of individuals-residents opened in the banks situated on the territory of the states that are the members of the Organisation for Economic Cooperation and Development (hereinafter — OECD) or Financial Action Task Force on Money Laundering (hereinafter — FATF):

- Credit and loan amounts in foreign currency received according to credit and loan agreements with

organisations-non-residents that are the agents of the government of the foreign states, as well as according to credit and loan agreements with the residents of the states that are the members of OECD and FATF for the time period of more than two years;
- Amount of income from renting (sub-renting) immovable and other property of the individuals-residents located outside the territory of the Russian Federation to non-residents;
- Funds paid out by non-residents in the form of grants;
- Funds paid out by non-residents in the form of saved interest (coupon) income on foreign securities and other income on foreign securities;
- Funds received by individuals-residents as a result of alienation of foreign securities by them.

There are no restrictions on carrying out currency exchange operations between residents and non-residents, excluding currency exchange operations on the purchase and sale of the foreign currency and cheques (including traveller's checks) whose nominal value is specified in the foreign currency. In relation to these operations, there are restrictions set in order to prevent international reserves from reducing considerably, sudden fluctuations in Russian currency exchange rate, as well as in order to maintain the stability of the balance of payments.

Non-residents have the right to make foreign currency transfers without restrictions between themselves from the accounts (investments) in foreign banks into the bank accounts (investments) in the authorised banks in the Russian federation and vice versa. Non-residents have the right to make Russian and foreign currency transfers without restrictions and without opening bank accounts on the territory of Russia, make transfers abroad and receive transfers from abroad.

Non-residents have the right to carry out currency exchange operations with internal securities between themselves on the territory of the Russian federation taking into consideration the requirements set by antitrust legislation and legislation on securities' market. Currency exchange operations between non-residents on the territory of the Russian Federation in Russian currency are carried out through bank accounts (bank investments) opened on the territory of Russia.

Non-residents have the right to open bank accounts (bank investments) on the territory of the Russian federation in foreign and Russian currency only in authorised banks. Non-residents have the right to transfer foreign and Russian currency from their accounts (investments) in foreign banks into their bank accounts (investments) in authorised Russian banks and vice versa without any restrictions.

There is a procedure set by legislation of the Russian Federation for importing into the Russian Federation and exporting out of the Russian Federation the currency values, currencies of the Russian Federation and internal securities.

As a rule, most of the violations of currency legislation are committed by the participants of foreign economic activities when importing and exporting goods. When performing foreign economic activities, the residents of the Russian Federation must provide the following within the time frames established by foreign trading agreements:

- Receiving foreign currency or the currency of the Russian Federation that is transferred in accordance with the conditions of the agreements (contracts) for the goods transported by the non-resident, for works that have been carried out for them, for services provided to them, for the information handed over to them and for the results of intellectual activities including the exclusive rights to them from non-residents into their bank accounts in authorised banks;
- Refunding money funds received by non-residents for the goods not exported into the Russian Federation (not received on the customs territory of the Russian Federation), not completed works, services not provided, information that hasn't been handed over and the results of intellectual activities including the exclusive rights to the back into the Russian Federation.

Residents have the right to open bank accounts (investments) in foreign or national currency in the banks outside the territory of the Russian Federation without any restrictions in most cases. However, they are obliged to notify tax authorities about opening (closing) these bank accounts (investments), as well as about changing the details. These residents, both individuals and legal entities, must provide reports about the transfers of funds on the accounts (investments) in the foreign banks.

In order to implement currency exchange control, currency exchange control authorities have the right to request and receive from both residents and non-residents the following typical documents related to carrying out currency exchange operations:

- Documents about the state registration of the individual as an individual entrepreneur;
- Documents confirming the status of the legal entity for non-residents and documents about the state registration of the legal entity for residents;
- Certificate of the registration with the tax authorities;
- Notification to the tax authorities about opening a bank account (investment) in the bank outside the territory of the Russian Federation at the location they are registered;
- Documents (draft documents) that are the foundation for carrying out currency exchange operations including agreements (contracts), letters of attorney, extracts from the minutes of general meetings or other management bodies of legal entity;
- Documents that contain information on auction results (if they are carried out);
- Documents confirming the transfer of goods (completion of works, provision of services), information and results of intellectual activities including the exclusive rights to them, acts of state authorities;
- Documents that are made and handed out by credit organisations including bank statements;
- Documents confirming the completion of currency exchange operations;
- Customs declarations, documents confirming the import of the currency, foreign currency, external

and internal securities in the document form into the Russian Federation;
- Transaction certificates.

Currency exchange control agents have the right to request the provision of only those documents that are directly related to the currency exchange operations being carried out, besides, all the documents must be valid on the day they are provided.

Documents are provided as originals or as duly certified copies. Document originals are accepted for review purposes and are returned to the individuals who have provided them. Document copies are filed in the currency exchange control files. If only a part of the document is present when completing a currency exchange operation, its certified copy can be presented.

§2. Transaction Certificates

Transaction certificate is a document that serves the purpose of the currency exchange control. Transaction certificates are issued if there are currency exchange operations between residents and non-residents when making payments and transfers through resident accounts opened in authorised banks, and in some cases through non-resident bank accounts.

Transaction certificates are required when specified currency exchange operations are carried out as payments for goods exported from the customs territory of the Russian Federation or imported into the customs territory of the Russian Federation, as well as completed works, services provided, information handed over and results from intellectual activities including the exclusive rights to them according to the foreign trade agreement (contract) made between the resident (legal entity or an individual entrepreneur) and non-resident.

Another case when transaction certificates are required is when carrying out currency exchange operations according to the credit or loan agreement.

Cases when transaction certificates are not required (despite the fact that formally completing currency exchange operations falls under the groups mentioned above) are provided by active regulations. If the contract is made:
- Between non-residents and individuals-residents who are note individual entrepreneurs when carrying out currency exchange operations specified by residents according to the contract;
- Between non-resident and credit organisation-resident;
- Between non-resident and federal executive body that is specially empowered by the government of the Russian Federation to carry out currency exchange operations (these bodies are the government of the Russian Federation, the Bank of Russia, Ministry of Defence (intelligence department);
- Between a non-resident and a resident when the total amount of the contract is not more than the equivalent of 50 thousand USA Dollars according to the exchange rate of foreign currencies to ruble established by the Bank of Russia on the date of signing a contract (credit agreement).

§3. Currency Repatriation

When performing foreign trade activities, residents must provide the receipt of foreign currency or the currency of the Russian Federation from non-residents into their bank accounts in the authorised banks that belong to them according to the conditions specified in the agreements (contracts) for the goods handed over to them by non-residents, works completed for them, services provided to them, information handed over by them and results of intellectual activities including the exclusive rights to them in the time frame specified in the foreign trade agreements (contracts).

Current currency exchange legislation does not establish the time frames for crediting revenue that must be received for the services provided by the resident. They are established by foreign trading contract.

Here it is important to note that it is resident's duty to provide the receipt of the currency on their bank accounts for the actual services provided to them.

If duties to receive currencies for the goods handed over, works completed, services provided, information handed over or results of intellectual activities have not been fulfilled in the established time frame, the individual will face punishment — fine will be imposed on the officers in the amount of 1/150 of the refinancing rate of the Bank of Russia of the amount of funds refunded to the Russian Federation with the violation of the specified time frame for every day of delay and (or) from 75%–100% of the funds not transferred into the accounts of the authorised banks.

Chapter 5.
Customs Regulations in the Framework of the Eurasian Economic Community

§1. General Provision on Customs Union

Customs Union is a form of economic integration of the member states of the Eurasian Economic Community (hereinafter — EEC) that intends to create a single customs territory and use single trade regulations measures with third countries[6].

Eurasian Economic Community is founded in accordance with the agreement on Eurasian Economic Union signed in Astana on 29th May, 2014. Currently, the following states are members of EEC:

1. Russia.
2. Belarus.
3. Kazakhstan.
4. Armenia.
5. Kyrgyzstan.

In the framework of customs union EEC member states:

1. Internal market for goods is functioning.
2. Single customs tariff of EEC and other single measures of internal trade of the goods with third countries are applied.
3. There is a single goods trading regime in relation to third countries.
4. Single trading regulation is implemented.
5. Free transportation of goods between the territories of member states is carried out without applying customs declaration and state control (transport, health, vet health, phytosanitary quarantine) excluding the cases specified in the agreement on EEC.

§2. Tariff Regulations in EEC

Currently there is a single customs tariff (hereinafter — SCT) applied on the territory of EEC that includes rates for customs dues applied on the goods imported on the customs territory from third countries and that is systematised according to the single Goods Nomenclature of the foreign economic activities in EEC (GN FEA EEC).

Single customs tariff has not been fully developed and, currently, there is a constant agreement making process of new rates and review of already existing rates. During this process, state members of EEC are taking into consideration the following factors:

1. Unification level of customs tariffs.
2. Importing certain goods on the customs territories of the member states of EEC.
3. Sensitivity of the rates of imported customs dues for certain industries.
4. International obligations of the member states of EEC.

The order for applying SCT rates depending on the country of origin of the goods and their import conditions is established by legislation of EEC countries, unless otherwise specified by the agreement on single customs tariff regulations and decisions of CTS.

The following goods imported from third countries are exempted from paying import customs dues:

- Goods as deposits made by the foreign founder into authorised (joint) capital (fund) within the deadlines established by the constitutive documents on forming this capital (fund);
- Goods imported as part of the international cooperation in the field of space exploration in accordance with the list confirmed by the Commission;

6. For the purpose of the current chapter, the concept of "Customs Union" is used in relation to customs, tax, administrative and other economic relations of member states of EEC.

- Sea fishing products from the member state ships, as well as from the ships leased (chartered) by legal entities and (or) individuals of the member states;
- Currencies of the member states, currencies of third countries (excluding those used for numismatic purposes) as well as securities in accordance with legislation of member states;
- Goods imported as part of humanitarian aid and (or) for the purpose of eliminating the consequences of natural disasters, accidents or catastrophes;
- Goods, besides the excisable ones (excluding cars specially designed for medical purposes) imported for charity purposes and (or) recognised in accordance with legislation of member states as gratis aid including technical assistance.

According to the Customs Code of the Customs Union, the procedure for paying export customs dues is regulated by a separate international agreement between the member states of Customs Union. Currently, this international agreement between all the member states of EEC has not been signed.

Tariff Discount Application by Member States of EEC

The rates for import customs duties of SCTC are unified and, as a general rule, are not subject to change depending on who is transferring the goods through customs boarder, types of transactions and other situations. Applying discounts by the member states of Customs Union is possible if this is specified in the agreement on EEC, in international agreements of the Union with a third country, in the decisions made by Eurasian Economic Commission (hereinafter — Commission).

Main principles of providing tariff discounts:

- Are applied regardless of the country of origin of goods;
- Cannot be of individual nature.

Besides tariff discounts applied regardless of the status of the importer or imported goods, applying tariff preferences in relation to goods coming from developing countries using a single system for tariff preferences of EEC and (or) least developed countries using the single system for tariff preferences of the Union is specified in the agreement on EEC. In relation to goods imported from first world countries, the rates of 75% from standard rates for imported customs dues of EEC are applied. In relation to goods imported from the second world countries, 0% rates for imported customs dues are applied. The list of developing countries using tariff preferences consists of 103 states. The list of least developed countries using tariff preferences consists of 50 states.

§3. Single Measures for Non-tariff Regulations of Customs Union

There are following measures for non-tariff regulations on the customs territory of Customs Union:

- Export and (or) import ban;
- Quantitative restrictions for export and (or) import (quotas);
- Providing exclusive rights to export and (or) import;
- Automatic licensing of export and (or) import;
- Licensing of importing or exporting goods.

A Ban and Quantitative Restrictions of Export and (or) Import

Export bans and quantitative restrictions can be set only in relation to goods included in the list of goods that are essential for the internal market of EEC confirmed by the Commission.

Commission distributes the amount of export (import) quotas between the member states of EEC and determines the method for distributing parts of the quotas between the participants of the foreign economic activities of the Customs Union states as well as, when necessary, distributes the amount of import quota between third countries.

Quotas are introduced for a certain period of time. Quotas do not apply to:

- Exported goods coming from third countries;
- Imported goods coming from EEC countries;
- Trading according to international agreements on free trade zones.

Providing Exclusive Rights to Export and (or) Import

The list of goods on the export (import) of which exclusive rights are provided, as well as the list of organisations that exclusive right to export (import) certain types of goods is provided to, must be published in accordance with the decision of the Commission. Currently, exclusive right of the state in the Republic of Belarus is established on the import of alcohol and freshwater fish. Exclusive right of the state on export is established in relation to mineral, potash or chemical fertilizers in the Republic of Belarus.

Automatic Licensing

In order to monitor the dynamics of export and (or) import of certain types of products, Commission has the right to introduce automatic licensing (monitoring).

Export and (or) import of goods in relation to which automatic licensing is introduced is carried out on the basis of having permission issued by the authorised body.

§4. Indirect Taxation

Indirect taxation in EEC has been regulated by the agreement on EEC since 29.05.2014.

Collection of indirect taxes in bilateral trade with the goods is implemented according to the principle of the country of consignment that determines the application of 0% tax rate on added value and (or) the exemption from paying excise when exporting goods as well as their taxation with indirect tax when importing them.

Collecting Indirect Taxes When Exporting Goods

When exporting goods, 0% rate of VAT is applied and (or) the exemption from paying (refunding the amount paid) the excise is applied on the condition of export being confirmed with a relevant document. The deadline for confirming the validity of applying 0% rate is within 180 calendar days from the date of unloading (handing over) the goods.

The Principle of Collecting Indirect Tax When Importing Goods

When importing goods into the territory of one of the member states of EEC from the territory of other member state of Customs Union, indirect taxes are collected by the tax authorities of the state-importer. Tax rates are established in accordance with legislation of the state the goods are being exported to. Indirect taxes are not collected when importing the following goods into the territory of the member states of EEC:

- Goods that are not subject to taxation when importing them into the territory of the state in accordance with its legislation;
- Goods that are imported by individuals for non-business purposes;
- Goods whose import is carried out in relation to handing them over to only one legal entity (there might be an obligation set by legislation of the member state to notify tax authorities about importing (exporting) such goods).

Collecting Indirect Tax When Completing Works or Providing Services

Collecting indirect tax when completing works, providing services is carried out in the member state of EEC whose territory is considered to be the location where the works are carried out and services are provided. However, when completing works, providing services, the tax base, indirect tax rates, the procedure for collecting them and tax discounts (exemption from taxation) are determined in accordance with legislation of the state, whose territory is considered to be the location where the works are carried out and services are provided.

§5. Control over Safety and Quality of the Products within EEC

Control over safety and quality of the products on the territory of EEC includes: registration, tests, conformity (declaration of conformity, certification), product inspection, product safety registration, as well as veterinary control, quarantine and pest control.

Certification (Declaration of Conformity)

There are mandatory requirements established by technical regulations of EECB on the goods that they apply to, as well as product identification rules, forms, charts and procedures of evaluating conformity. There are member states or Commission asset legislation norms for the objects of technical regulations in relation to which technical regulations of EEC were introduced. Mandatory confirmation of conformity is carried out only in cases established by the relevant technical regulations of EEC.

Products that conform with the requirements of the technical regulations of the Union that apply to these products and that have followed the procedures for conformity evaluation established by the technical regulations of the Union are subject to mandatory marking with a single unified product sign on the market of EEC (hereinafter — unified reference sign).

There are no requirements to specify which country product inspections or certification procedures should be carried out in. Not only the products manufactured in EEC are marked with a unified reference sign, but also products exported from third countries. Besides, declaration of conformity in relation to foreign products that are subject to mandatory conformity confirmation is not carried out. Currently, it is not possible to receive a certificate of EEC on single unified form for all the products. At the moment, there is a process of the unification of technical normative legal acts within EEC where technical regulations of EEC that will set general unified requirements for all member states of the Union are being established.

Chapter 6. Antimonopoly Control

§ 1. General Provisions. Prior Agreement of Federal Antimonopoly Service of the Russian Federation

When establishing and introducing current Russian legislation on protection of competition, tendencies of world economic development determined by the globalisation process were taken into consideration.

Implementation of antimonopoly policies in the Russian Federation is carried out by the antimonopoly authority — Federal Antimonopoly Service of the Russian Federation (hereinafter — FAS RF).

The law on the protection of competition determines when it is necessary to receive a prior agreement of FAS RF to carry out a transaction, and when it is enough to just notify FAS RF about the transaction made or about other activities.

Based on the prior agreement of the antimonopoly authority, the following activities are performed:

- Merging and acquisition of commercial organisation;
- Obtaining shares with a right to vote in the authorised capital of the shareholder community by an individual (group of individuals), where these individuals (group of individuals) receive the right to manage more than 25% of the specified shares. This requirement does not apply to the founders of the shareholder community during its creation;
- Obtaining shares in the authorised capital of the limited liability company by an individual (group of individuals), it these individuals (group of individuals) receive the right to manage more than 1/3 of the shares in the authorised capital of the company. This requirement does not apply to the founders of limited liability company during its creation;
- Obtaining shares in the authorised capital of the limited liability company by an individual (group of individuals), who manage at least 1/3 of the shares and no more than 50 per cent of the shares in the authorised capital of this company, if these individuals (group of individuals) receive the right to manage more than 50% of the specified shares;
- Obtaining the voting shares of the community shareholders by an individual (group of individuals), who manage at least 25 per cent and not more than 50 per cent of the voting shares, if these individuals (group of individuals) receive the right to manage more than 50 per cent of these voting shares;
- Obtaining shares in the authorised capital of the limited liability company by an individual (group of individuals) who manage at least 50 per cent and not more than 2/3 of the shares in the authorised capital of this company, if these individuals (group of individuals) receive the right to manage more than 2/3 of the specified shares;
- Obtaining the ownership and right to use one business subject (group of individuals), main means of production or intangible assets of another business subject, if the carrying value of the property that is the subject of the transaction (interrelated transactions) is more than 20 per cent of the carrying value of the main means of production and intangible assets of the business subject alienating or transferring the property;
- Obtaining the rights that would allow individuals (group of individuals) to set the conditions for managing business subjects and their business activities or to perform the functions of its executive body;
- Obtaining more than 50 per cent of the voting shares of the foreign legal entity or other rights allowing the individuals (group of individuals) to set the conditions for performing business activities by this legal entity or to perform the functions of its executive bodies.

Prior agreement on making transactions mentioned above is required when:

- Total cost of the assets on the latest balance sheets of the individual obtaining the shares and their groups as well as individuals, whose shares are obtained and their groups is more than 7 milliard rubles;
- Or if the total revenue of the individuals mentioned above from selling the goods in the last calendar year is more than 10 milliard rubles and, at the same time, the total cost of the assets on the latest balance sheets of the individual whose shares are obtained and their groups is more than 250 milliard rubles.

Besides, when calculating the total cost of the assets, the assets of the individual selling the shares or the rights are not taken into consideration, if as a result of the transaction the selling individual and its group of individuals lose the rights that would allow them to set the conditions for business activities by the individual whose shares are being sold.

Antimonopoly authority notifies the applicant in writing about the decision no later than 30 days after receiving the necessary documents. If necessary, the time period can be extended by the antimonopoly authority, but for no more than 2 months.

Antimonopoly authority rejects the application if, when reviewing the provided documents, they notice that the information that is essential for making a decision is incorrect, as well as if the application can lead to restrictions for competition on the commodity market, including if the dominant position of the business subject or business subjects occurs or increases.

State dues in the amount of 35 000 rubles are collected for reviewing the applications specified by the antimonopoly legislation.

§2. "Vertical" Agreements

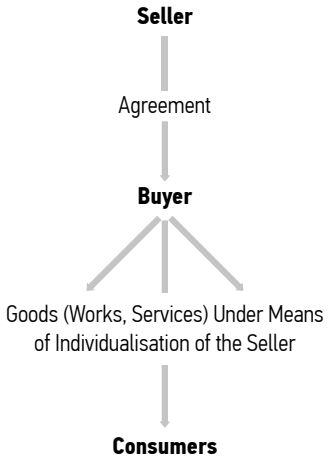
Vertical agreements are any agreements between business subjects, where one of them is a buyer and the other one is providing (selling) the goods, works, services.

Vertical agreements are not restricted; however, when making these agreements, one must take into consideration a number of bans and restrictions. Vertical agreements cannot be made, if they:

1. Lead to or can lead to establishing the price for reselling the good, works, services.
2. Provide the obligation for the buyer not to sell the goods, works, services that are being sold by the competitors of the seller.
3. Restrict the competition in any other way, including:
   - Imposing disadvantageous conditions or conditions that are irrelevant to the subject of the agreement upon one of the parties;
   - Establishing economically, technologically or in any other way unreasonable variety of prices for goods, works and services. It should be mentioned that establishing a variety of prices depending on the region is possible; however, these varieties and the reason for their establishment must be reflected in the approved marketing policy of the company;
   - Intending to create obstacles in accessing or exiting commodity market for other business subjects;
   - Establishing membership (participation) conditions in professional or other associations.

Not every agreement between the seller and the buyer is a vertical agreement and not every vertical agreement is subject to bans and restrictions listed above. Bans and restrictions do not apply, if any of the following conditions are met:

1. Handing over the goods by the seller to the buyer is performed according the franchise agreement.
2. A share of every party of the agreement is not more than 20% on any commodity market (excluding the agreement of financial organisations).
3. The agreement between the parties provides the establishment of the maximum price for reselling goods, works or services.
4. The agreement between business subjects that establish the obligation of the buyer not to sell goods, works or services of the competition applies to buyers organising selling goods under the trademark or other means of individualisation of the seller. In other words, if the essence of legal relations between the seller and the buyer is creating dealer network to sell goods under certain trademarks or other means of individualisation of the seller, where the seller has exclusive rights to them and establishing the ban for the buyer to sell identical goods by other manufacturers.



Consequently, in most cases, legislation on protection of competition allows establishing certain conditions that give certain advantages to the buyer or make them imperative in one way or another.

§3. Responsibility for the Violations of Antimonopoly Law

Violating the law on protection of competition leads to applying the measures for civil, administrative and criminal liability on business subjects and their officials. Both administrative and criminal punishments cannot be imposed at the same time for one violation; however, one activity might contain two or more violations; therefore, several liability measures can be applied for committing them. Criminal liability applies only to individuals; administrative liability applies to both organisations and their officials (it is possible to bring them both to account at the same time). Sate legal liability can be applied if the competition organisation that suffered unfair treatment turn to court over the incurred damage, and the court satisfies their claim. Normally, the court requires that the violation case of the law on protection of competition is confirmed; therefore, very often these claims are made at the same time with opening the administrative or criminal violation case.

Administrative punishment for committing violations in restricting competition is a fine: it is from 20 to 50 thousand

rubles for officials and from 300 thousand to 1 million rubles for organisations, in some cases it is from 0.01 to 0.15 from the amount of revenue from selling the goods, works or services that violates the law on protection of competition (but no more than 1/50 from the amount of revenue from these sales). Officials (most often it is a general director) can also be disqualified, that is denied the right to assume a leadership position for the time period of up to 3 years.

When the activities of business subjects on prevention, restriction or eliminating the competition incur damage on citizens, organisations or the government in the amount that is more than 10 million rubles, those who are responsible for these activities will face a criminal punishment in the form of a fine in the amount from 300 to 500 thousand rubles or in the form of compulsory labour for the time period of up to 3 years. Maximum punishment for committing the activities listed above is imprisonment for the period of time of up to 3 years. At the same time, those who are responsible can be denied the right to assume certain business positions or perform certain business activities, for instance, entrepreneurship.

If the amount of incurred damage is more than 30 million rubles, maximum punishment can be imprisonment for the time period of up to 6 years and a fine in the amount of 1 million rubles.

Chapter 7.
Labour Regulation in the Russian Federation

§ 1. General Provisions on the Labour Market in the Russian Federation

According to Rosstat data, the number of economically active population in Russia in the age group from 15–72 (working + unemployed) in 2014 was 75.5 million. 71.4 million people are working and perform business activities, 4.1 million people are unemployed (that is do not have a job or are not in the paid employment, are looking for a job and are ready to start working).

§ 2. Features of Citizen Labour Regulations in the Russian Federation

Russian Constitution enforces the freedom of labour for all the citizens. The scope of employment is regulated, first of all, by the Labour Code of the Russian Federation. Besides, there are other normative legal acts that regulate smaller issues of the labour relations.

According to the Labour Code of the Russian Federation, the labour agreement is made in a written form. Mandatory conditions that must be included in the provisions of the labour agreement are also secured in the Labour Code.

The usual duration of the working time cannot be more than 40 hours a week. There is a shortened norm of the working time established for some categories of employees. Five or six day week is set for the employees, the working week where days off are provided according to a flexible schedule is not a full working week. The usual working day does not exceed 8 hours with 1 hour lunch break that is not included in the working time. There are special norms that regulate night time work, weekend work and work during holidays, work of minors and so on. Any overtime work is paid for additionally. Employers must provide paid annual leaves that last for at least 28 calendar days to their employees (the duration of annual leave increases as additional for every irregular working day, for working in complicated and dangerous conditions, as well as for working in the Far North regions and places similar to those). Annual leaves differ according to the average salary of the employee.

The following holidays are considered as days off in Russia:

- 1st, 2nd, 3rd, 4th, 5th, 6th and 8th January — New Year's Holidays;
- 7th January — Christmas;
- 23rd February — Defender of the Fatherland Day;
- 8th March — International Women's Day;
- 1st May — Labour and Spring Day;
- 9th May — Victory Day;
- 12th June — Russia Day;
- 4th November — National Unity Day.

Commercial organisations and individual entrepreneurs have the right to establish the conditions for paying for employee labour themselves. The salary payment depends on the qualification of the employee, complexity of the work they perform, the quantity and quality of labour input. Any discrimination when setting and changing the amount of salary payments and other payment conditions is not acceptable. Certain labour payments established by Russian government apply to the employees in the public sector when setting labour payment conditions for them.

Maximum amount of salary is not restricted; however, the state established the minimum that the employee should receive for working a full month at a normal duration of a working day — it is 6 204 rubles from 01.01.2016. Employee salary is included in company expenses on manufacturing and selling the goods (works, services) as well as it is taken into consideration during pricing and taxation.

§ 3. Features of Regulating Foreign Citizen Labour

Foreign citizens use the right to freely manage their labour abilities, choose a type of business activities and profession, as well as the right to freely use their abilities and property for

business and other economic activities that are not banned by law, taking into consideration restrictions set by Russian legislation.

Legal status of foreign employees depends largely on the regime and grounds for arriving to Russia when performing labour activities.

Foreign citizens in Russia are divided into the following categories:

- A foreign citizen living temporarily in the Russian Federation — an individual who has received a temporary residence permit;
- A foreign citizen living permanently in the Russian Federation — an individual who has received a residence permit;
- A foreign citizen arriving to the Russian federation on a temporary basis — an individual who arrived in the Russian Federation on visa basis or according to a procedure that does not require a visa and who have received a migration card, but who do not have a residence permit or a temporary residence permit.

The principal differences in the legal provisions of the listed foreign citizen categories will be discussed in detail below.

Employers attracting foreign citizens to work for them must notify territorial authorities of federal migration service of Russia in the subject of the Russian Federation, where these citizens are working about signing and closing employment contracts or civil legal contracts with them. The deadline for notifying is within 3 working days from signing (terminating, breaking) the relevant contract.

The features of regulating foreign citizen labour do not apply to the citizens of the Republic of Belarus. They have the same rights as Russian citizens in regards with, for instance, payment, working time regime and break times, work protection and conditions, other aspects of labour relations, receiving health care and other social guarantees.

3.1. Foreign Citizens Living Permanently in the Russian Federation

A document that confirms the right of the foreign citizen to live permanently on the territory of Russia as well as the right to travel freely in and out of the country is a residence permit. Besides, it is a personal identification document for the foreign citizen. A residence permit is issued for a time period of five years. When this time period ends, it can be extended for five years again. This time period can be extended unlimited number of times. Before the residence permit is received, a foreign citizen must live in the Russian Federation for at least one year based on the temporary residence permit.

In order to perform labour activities, a foreign citizen living permanently in Russia does not need to have a work permit (excluding highly qualified professionals). They have the right to perform these activities on the whole territory of Russia. When employing these citizens, the same procedure needs to be followed as when employing Russian citizens. However, despite this, the employer must notify territorial authorities of FMS of Russia about signing (terminating) the employment contract with these employees as there are no exclusions to this general procedure.

3.2. Foreign Citizens Temporarily Living in the Russian Federation

A foreign citizen living temporarily in Russia is an individual who has received a temporary residence permit. The temporary residence permit confirms the right of the foreign citizen to live temporarily in Russia until the residence permit is received, and there is a mark on the document that confirms the identity of the foreign citizen. The permit is valid for the time period of three years.

A foreign citizen, who is temporarily living in Russia, the same as a foreign citizen, who is permanently living in Russia, does not need to have a work permit. At the same time, they can work only in the subject of the Russian Federation where they are allowed to live temporarily. However, there are exclusions to this rule: a foreign citizen living temporarily in the Russian Federation has the right to perform labour activities outside the subject of the Russian Federation where they are allowed to live temporarily in the following situations:

- When they are instructed to go on a business trip. The total amount of time of the labour activities of the foreign citizen outside the certain subject of the Russian Federation cannot be more than 40 calendar days in 12 calendar months;
- If permanent work is performed by the employee while travelling or is of travelling nature; and this is specified in their employment contract. The total amount of time of the labour activities of the foreign citizen outside the certain subject of the Russian Federation cannot be more than 90 calendar days in 12 calendar months.

Foreign citizens must perform labour activities in certain professions (positions). The list of these professions (positions) is established by the order of the Ministry of health and social development of the Russian Federation.

3.3. Foreign Citizens Arriving to the Russian Federation on a Temporary Basis

A foreign citizen arriving to the Russian Federation on a temporary basis — an individual who has arrived to the Russian Federation on a visa basis or according to the procedure that does not require obtaining a visa and who has received a migration card but does not have a residence permit or a temporary residence permit.

Visa is a permit for entry into Russia, arriving into the territory of the country and transit travel through it by the foreign citizen in the time period when this permit is valid.

Depending on the purpose of the entry or arrival into Russia, foreign citizens can be issued visas that fall under the following categories:

- Diplomatic;
- Service;
- Ordinary;
- Transit;
- Visa of the temporarily residing individual.

Depending on the purpose of the entry into the territory of the Russian Federation by the foreign citizen and the purpose of their arrival to the country, ordinary visa has the following types:

- Private;

- Business;
- Tourism, including group tourism;
- Student;
- Working:
- Humanitarian;
- Visa for entry into the Russian Federation with a purpose to receive asylum.

Visa-free entry into Russia is established for all citizens arriving from countries of Commonwealth of Independent States (excluding Georgia and Turkmenistan), as well as from a number of other states (for instance, Israel).

3.4. Attracting Foreigners to Work

As a general rule, in order to attract foreign workers according to employment or civil legal contract, it is required to receive the following permits:

- A permit to attract and utilise foreign workers issued to the organisation;
- A permit to work or a patent issued to the foreign worker.

The permit to attract and utilise foreign workers is issued by the federal migration service or its territorial authority. In order to receive the permit to attract and utilise foreign workers, an organisation must perform the following activities:

1. Apply for the need to attract foreign workers for filling in the vacancies and created positions to the empowered body of the subject of the Russian Federation.
2. Submit an application to receive the permit to attract and utilise foreign workers and supporting documents to the territorial authority of FMS of Russia.
3. Pay state dues for issuing the permit to attract and utilise foreign employees (the amount depends on the number of the employees attracted and is 10 000 rubles for every employee attracted).
4. Collect the permit to attract and utilise foreign employees from the territorial authority FMS of Russia.

It should be noted that the employer must definitely confirm that they tried to close a vacancy through employing Russian citizens.

Another permissive document that is required as a general rule for employing foreign citizens is a permit to work or a patent. It is issued for a foreign employee. Two procedures for issuing this permit are established by legislation. One of them is quite complicated; another one is a simplified version of it.

The first procedure is applied when issuing permits to work for foreign citizens arriving to Russia following a process that requires receiving a visa. The simplified procedure is applied when the permit is issued to the foreigners arriving without a requirement to have a visa.

When the "Visa Regime" for Entry into the Russian Federation is Applied to the Foreign Citizen

In this case, in order to receive a working visa, a foreign citizen needs an invitation letter to arrive. This letter is issued by the inviting party and not by the foreign citizen. Legal entities, branches, subsidiaries of foreign commercial organisations, the citizens of the Russian Federation and foreign citizens living permanently in the Russian Federation can serve in this capacity (in order to issue invitation letters, all these categories must notify and register at FMS of Russia). In order to issue invitation letters, the following documents must be submitted to the territorial authority FMS of Russia:

1. Petition on issuing the invitation to enter the Russian Federation.
2. A valid document, proving the identity of the inviting party.
3. A copy of the document proving the identity of the foreigner and recognising them in the Russian Federation as such.
4. A letter of indemnity on liabilities for financial, medical and residence provision to the invited foreigner during their stay in the Russian Federation.
5. A document confirming that the payment of dues in the amount of 800 rubles for every invited foreigner has been made.

In order to employ a foreigner, an organisation must go to the territorial authority of Federal Migration Service or directly to the Federal Migration Service and hand in:

1. An application on issuing work permit for every foreign citizen attracted.
2. A colour photo of the foreign citizen (30×40 mm);
3. A copy of the document proving the identity of the foreign citizen. This document must be valid for at least a year on the day of application on issuing the permit.
4. Documents confirming that the foreign citizen is not addicted to drugs and does not have an infectious disease that is dangerous to others. Besides, the certificate confirming that the foreigner does not have HIV infection must be provided.

If any of these documents is in the foreign language, they must be accompanied with a notarially certified translation in Russian language. Official documents whose copies are provided for receiving work permit and that have been issued on the territory of the foreign states must be legalised (apostilled) according to an established procedure.

After all the documents mentioned above are reviewed, the applicant is issued with an invitation to perform business activities and a work permit for every foreign worker in relation to which the relevant documents have been submitted and a positive decision has been made. As a general rule, after receiving the work permit, the foreigner who needs a visa must provide a document to the territorial authority of FMS of Russia confirming that they are fluent in Russia, have knowledge on the history of Russia and the principles of legislation of the Russian Federation. If this document is not provided, the work permit can be cancelled.

When the Visa-free Regime for Entry Into the Russian Federation Applies to the Foreign Citizen

Employers have the right to attract foreign citizens who have arrived to the Russian according to the visa-free regime for labour activities without receiving a permit to attract and utilise foreign workers. However, as a general rule, these foreign citizens must have a work permit or a patent in order to perform labour activities in Russia. It is not required, for instance, to receive a patent (work permit) for the citizens of the Republic of Belarus and Kazakhstan, foreign citizens who are recognised as refugees or who have received a temporary shelter and who have arrived to the Russian Federation on a

temporary basis.

The following visa-free foreigners must receive work permit:

- Highly qualified foreign specialists and their family members;
- Full time students of a professional educational organisation or an organisation of higher education receiving education in the Russian Federation.

Other categories of visa-free foreign citizens are employed on the basis of a patent. In order to receive a patent, a foreigner arriving to the Russian Federation on a temporary basis according to the visa-free regime must provide the following documents to the territorial authority of FMS of Russia within 30 calendar days of their arrival to the Russian Federation:

1. An application form.
2. A copy of the document that is a proof of identity of the foreign citizen.
3. A colour photo.
4. Contract (policy) of the voluntary medical insurance signed with the Russian insurance organisation or an agreement on providing paid medical services made with a medical organisation that is located in the subject of the Russian Federation, where a foreign citizen is intending to perform labour activities.
5. Documents confirming that the foreign citizen is not addicted to drugs and does not have infectious disease, as well as a certificate confirming that they do not have HIV infection.
6. A document confirming that the foreign citizen is fluent in Russian, has the knowledge on the history of Russia and the principles of legislation of the Russian Federation.

A patent gives the right to employment only in the subject of the Russian Federation, whose territorial authority issued it. Employer must notify territorial authority of FMS of Russian about signing (terminating) employment contract with a foreigner, who is working on the basis of a patent. This notification is carried out in person or by posting out a special form.

Certain categories of foreign citizens do not require a work permit. The following individuals fall under these categories:

- Those living permanently in the Russian Federation on the basis of a residence permit;
- Those arriving to the Russian Federation on a temporary basis and on the basis of the temporary residence permit;
- Those who are participating in a state programme on providing assistance in voluntary resettlement into the Russian Federation to the nationals living abroad and their family members who move together with them to the Russian Federation;
- Those who are the employees of diplomatic representatives, the workers of the consular offices of foreign states in the Russian Federation, employees of international organisations as well as private home workers of the mentioned individuals;
- Those who are the employees of the foreign legal entities (manufacturers or suppliers) that perform construction (installation) works, servicing and guarantee works, as well as out of guarantee repairs of the technical equipment supplied into the Russian Federation;
- Those who are journalists accredited in the Russian Federation;
- Those who are studying in the Russian Federation in the educational institutions of professional education and performing works (providing services) during holidays;
- Those who are studying in the Russian Federation in the educational institutions of professional education and working in spare time as part of the educational support personnel in those educational institutions, where they are studying;
- Those invited to the Russian Federation as lecturers to conduct lessons in educational institutions excluding individuals who arrive to the Russian Federation in order to perform teaching activities in professional religious education institutions (spiritual educational institutions);
- Those recognised as refugees on the territory of the Russian Federation before they lose their refugee status or they are deprived of their refugee status;
- Those who received temporary asylum on the territory of the Russian Federation before they lose temporary asylum or they are deprived of their temporary asylum.

It should also be noted that there are stringent accountability measures (for instance, fine in the amount from 250 000–800 000 rubles or administrative termination of business activities for the time period of up to 90 days for employing organisation (or attracting organisation) established for unlawful attraction of the foreigners to perform labour activities.

This way, neglecting described procedures can lead to serious negative consequences for organisations.

§ 4. Features of Attracting Highly Qualified Specialists to Work

A highly qualified specialist is considered to be a citizen, who has work experience, skills and achievements in a certain field of business activities. Besides, in order for the foreign worker to be considered as a highly qualified specialist, their salary payment (reward) is taken into consideration. It must be:

1. At least 83 000 rubles per one calendar month for highly qualified specialists that are scientists or lecturers who are invited to perform scientific research or teaching activities in the higher educational institutions that have state accreditation, state science academies or their regional branches, national research centres or state science centres.
2. At least 58 500 rubles per one calendar month for foreign citizens who are attracted to work by the residents of the techno-developing special economic zone.
3. At least 1 million rubles per year (365 calendar days) for highly qualified specialists who are medical, pedagogical or scientific employees when they are invited to perform relevant activities on the territory of the international medical cluster.

Summary table of the documents and permits required in order to employ a foreign citizen

	Permanently residing foreign citizen	Temporarily residing foreign citizen	A foreign citizen arriving on a temporary basis		
			According to the procedure that requires receiving a visa	According to the procedure that does not require a visa	Citizens of Kazakhstan, Armenia, Kyrgyzstan
	A highly qualified specialist	A highly qualified specialist	A highly qualified specialist	A highly qualified specialist	A highly qualified specialist
Document confirming the right to arrive to the Russian	Residence permit	Temporary residence permit	Visa	Migration card	Notification about arriving at the arriving point
A permit to attract workforce for the employer	Not required	Not required, they can work only in the subject of the Russian Federation, where residency is permitted	Required / Not required	Not required	Not required
A work permit for a foreign worker to work in the Russian Federation	Not required / Required	Not required / Required	Required excluding a number of cases[8]	Work permit is required in the form of a patent / Required	Not required
Notification of the tax authorities about attracting foreign workforce	Required				

4. At least 167 000 rubles per year (365 calendar days) for other foreign citizens[7].

Competency and qualification level of foreign citizens is determined by the employer and service customer independently based on the documents and information confirming that the specialist has professional knowledge and skills.

Employers who attract highly qualified specialists to work have a lot of advantages. First of all, when attracting these employees to perform labour activities in Russia, the employer does not need to obtain a permit to attract and utilise foreign workers.

Quotas apply to these specialists and their family members, and the employer can attract them to labour activities without establishing the need for these workers in advance. In order for the work permit to be issued to a highly qualified foreign specialist, their employer must submit the following documents to the territorial authority of MFS of Russia:

- Petition to attract this specialist;
- Employment (civil legal contract) with them;
- The following documents are related to issuing work permit to VKS:
  - A written obligation to pay (compensate) the expenses of the Russian Federation related to administrative expulsion outside the Russian Federation or deportation of the attracted specialist;
  - A document on paying dues for issuing the work permit in the amount of 3 500 rubles.

Work permit is issued to the highly qualified foreign specialist for the time period of the valid employment or civil legal contract signed by them to perform works (provide services) which is not longer than 3 years. During the time while the permit is valid, the family members of this specialist have the right to perform labour activities on the territory of Russia if they have a work permit, as well as study in the educational

7. If a foreign citizen is engaged in the implementation of the project "Skolkovo" in accordance with the federal law on innovation centre Skolkovo, he or she obtain a status of a highly qualified specialist automatically regardless of the amount of their salary.

institutions and conduct other activities that are not banned by legislation of the Russian Federation.

The time period of the work permit of the highly qualified foreign specialist being valid can be extended more than once for the time period of the valid employment or civil legal contract on doing work (providing services) but cannot exceed the period of three years every time it is being extended.

The following organisations have the right to attract highly qualified specialists: Russian commercial, scientific organisations, educational institutions of professional education, health institutions, as well as other organisations that perform scientific, technologically scientific and innovation activities, experimental developments, tests, personnel training in accordance with state priority directions of science, technology and equipment development and branches of foreign legal entities accredited on the territory of the Russian Federation.

§5. Features of Regulating the Labour of Leaders

The leader of the organisation is an individual who directs this organisation including performing the functions of its sole executive body.

The features of the legal status of the leader of the organisation are that, at the same time, both civil legislation (as for the body of the legal entity) and the norms of labour law (as for the worker entering into labour relationships on the basis of the employment contract with the legal entity (employer) apply to the leader.

The circle of authority of the leader is considerably wider in comparison with the authorities of other workers of the organisation. The following rights are granted to the leader:

- Represent the interests of the organisation and make transactions under its name without having the letter of attorney;
- Issue letters of attorney to give the rights to represent the organisation;
- Establish the structure and number of staff;
- Open bank accounts;
- Issue orders on assigning the positions to the employees, on their transfers and dismissal, on applying incentive measures and imposing disciplinary actions and so on.

There are several ways to establish working relationships with the leader of the organisation: going through a selection process, appointing or confirming the position of the employee. In some cases, there are recruitment competitions conducted in order to sign the contract with the leader of the organisation.

Despite the special status of the leader of the organisation, it is required to comply with the law requirements that apply to all employees regardless of their position, when signing the employment contract with the leader. For instance, the employment contract with the leader is prepared in a written form in two copies (one for the employee, another one for the leader), some grounds for dismissing a leader are similar to the grounds for dismissing other employees (specialists, workers).

However, there are certain features. The leader of the organisation, who is planning to leave the business voluntarily, must give notice to the employer in writing (the owner of the organisational property, its representative) on early termination of the employment contract no later than a month before the leaving date. Other employees, including the manager of the branch, give notice on terminating working relationships no later than 2 weeks before the leaving date.

The leader of the organisation is financially liable for the losses caused by them to the legal entity. The leader of the organisation and members of the collegial executive body are obliged to act on behalf of the legal entity efficiently and with integrity. If it is proven in court that the individuals violated these principles, they are obliged to compensate the losses caused by their dishonest activities. Agreements on restricting these obligations are considered to be void in all cases.

When the signs of bankruptcy of the organisation occur, the leader bears the subsidiary liability before the lender for violating the obligation to submit an application to the court of arbitration in order to open the bankruptcy case. However, if the leader can prove that he or she acted efficiently and with integrity protecting the interests of the organisation, he or she is not then subsidiary liable before the lender anymore.

§6. Agency Labour Ban

There is an agency labour ban in Russia also referred to as out-staffing. Providing personnel loan services is a prerogative of private employment agencies that have gone through accreditation process. These agencies must follow a number of imperative requirements of the law related to the labour activities of the worker. Labour functions that the worker performs under the management and control of individuals or legal entities who are not the employers according to the employment contract must be clearly defined in this employment contract made between the employment agency and the worker who is being sent to do temporary work to a host organisation.

Using the services of personnel loan for organisations and individual entrepreneurs is possible only in certain situations, namely:

- With a purpose to do private servicing in order to provide help with housework (for an individual who is not an individual entrepreneur);
- With a purpose to temporarily perform the duties of the absent workers, whose work position is saved for them (for individual entrepreneurs or legal entities);
- With a purpose to carry out works related to a planned short term (up to 9 months) expansion of the business or amount of services provided (for individual entrepreneurs or legal entities). If the number of workers attracted in this case is more than 10% of the average number of employees, the decision on signing a contract with an employment agency on personnel loan must be made taking into consideration the opinion of the chosen body of the primary trade union organisation.

Using the services of private employment agencies, even the ones accredited according to the established procedure, on a permanent basis is prohibited.

8. Subsections nr 2–12 of paragraph 4 of the article nr 12 of the federal law as of 25.07.2002 №115-FL "On legal position of foreign citizens in the Russian Federation".

Individuals and legal entities that are the customers of employment agencies (host organisations — according to the terminology of the Labour Code of the Russian Federation) are subsidiary liable for employer obligations resulting from the working relationships with the workers. Subsidiary liability also applies to money obligations of the employer before the worker.

Besides private employment agencies, legal entities including foreign legal entities are allowed to provide personnel loan services for the following customers:

- Legal entities affiliated in relation to the providing organisation;
- Joint-stock companies, if the providing organisation is also a party to the shareholder agreement on implementing the rights confirmed by the shares of this joint-stock company;
- A legal entity that is a party to the shareholder agreement with the providing organisation.

§ 7. "Salary" Taxes and Deposits into the Off-budget Funds

Income Tax for Individuals (ITI)

In general, worker salary is subject to ITI. Besides, payment for labour is subject to tax regardless of its amount.

For ITI, the object of taxation is considered to be the income that is received by an individual. Income can be received from the sources of both the Russian Federation and abroad. Besides, some tax payers must pay ITI on all types of income, and some — only on income received from the sources in the Russian Federation. It depends on the taxpayer being a resident of the Russian Federation or not.

A taxpayer obtains a status of the tax resident of the Russian Federation if they are actually reside in the Russian Federation at least 183 calendar days in 12 consecutive months.

Types of Income of the Individuals:

- Rewards for performing labour duties;
- Rewards for works performed, services provided etc.;
- Dividends;
- Interests;
- Insurance pay-outs;
- Income from implementing copyright and related rights;
- Income from selling, renting out or using the property in any other way;
- Other types of income.

Some income is exempted from taxation with ITI. Those, typically, include income in the form of:

- Pregnancy and child birth benefits;
- Alimony;
- Compensations on holiday costs;
- Payments for health treatments and medical services;
- Amounts received from selling (clearing) the shares in the authorised capital of Russian organisations, if these shares continuously belonged to the taxpayer for more than 5 years on the day of the sale.

Tax payers status	Incomes as object to ITI
Individual is tax resident of the Russian Federation	Income from the sources of both the Russian Federation and (or) abroad
Individual is not tax resident of the Russian Federation	Income from the sources of the Russian Federation

The total rate of ITI for the residents of the Russian Federation is 13%. In relation to certain types of income, special tax rates are provided — 9, 15, 30 *и* 35%. If individuals are tax residents of the Russian Federation, most of their income will be taxed according to the tax rate of 13%. These types of income include, for instance, salary rewarded according to civil legal contracts, income from selling the property, dividends.

Dividends received from Russian organisations by individuals that are not tax residents of the Russian Federation are taxed according to the rate of 15%. All other incomes that are received by individuals who are not tax residents of the Russian Federation are taxed according to the ITI rate of 30%. The exception is made for income from performing activities by highly qualified specialists and labour activities based on a patent that are taxed according to the rate of 13%.

The tax base according to ITI is a monetary value of the income of the taxpayer reduced by tax deductions provided by the legislation of the Russian Federation.

In most cases, individuals do not make ITI deductions and payments into the budget — tax agents do that for them (those who are the source of income, most often — employers). But in some situations, taxpayers must deduct and pay the tax. These requirements are established by the Tax Code of the Russian Federation and apply partially to income from selling properties, securities, interests on investments, gifts etc.

According to the results of the tax period, ITI payers, who have to deduct and pay the tax themselves or wish to receive tax deductions, must provide tax declarations to the tax authorities. Tax agents, according to the results of the tax period, must provide information on individual income and the amount of the assessed and collected tax to the tax authorities.

Insurance Contributions

Insurance contributions must be transferred separately into the pension fund, social insurance fund and mandatory health insurance fund.

The payers of insurance contributions are considered to be individuals who make pay-outs and other rewards to individuals:

- Organisations;
- Individual entrepreneurs;
- Individuals who are not individual entrepreneurs;
- Individual entrepreneurs, lawyers, notary, who engage in private practice (who work "for themselves" and do not make pay-outs to other individuals).

If the payer of insurance contributions simultaneously belongs to several categories described, they must deduct and pay insurance contributions for each condition.

The objects of taxation for organisations and individual entrepreneurs are pay-outs and other rewards made:

- For the benefit of individuals within working relationships and civil legal contracts, whose subject is performing works, providing services (excluding rewards that are paid out to entrepreneurs, lawyers, notaries who are engaged in private practice);
- According to the contracts of authorship order, contracts on alienation of the exclusive rights to science creations, literature, art, published licensing contracts, licensing contracts on providing the rights to use science creations, literature, art;
- For the benefit of individuals who are subject to mandatory social insurance in accordance with the federal law on certain types of mandatory social insurance.

The objects of taxation for individuals, who are not individual entrepreneurs, are:

- Pay-outs and other rewards according to employment contracts and civil legal contracts, whose subject is performing works, providing services, made by the payers of insurance contributions for the benefit of individuals (excluding rewards that are paid out to individual entrepreneurs, lawyers, notaries, who engage in private practice).

The base for paying insurance contributions for the payers of insurance contributions is calculated as amount of pay-outs and other rewards paid to the payers of insurance contributions for the calculating period for the benefit of the individuals (excluding the amounts that are not subject to insurance contributions).

The base for paying insurance contributions is calculated separately in relation to every individual from the beginning of the calculating period until the calendar month is finished on an accrual basis.

The calculating period for insurance contributions is a calendar year. The reporting period is the first quarter, half-year, 9 months, a calendar year.

The total amount of insurance contributions for most taxpayers will be 30% in 2015–2018:

- 22% of the amount of pay-outs and other rewards to the workers — into the pension fund of the Russian Federation;
- 2.9% — into the social insurance fund of the Russian Federation;
- 5.1% — into the federal fund of mandatory health insurance.

Reduced rates of insurance contributions are established for some categories of taxpayers m- these are some agricultural product manufacturers, organisations and individual entrepreneurs who apply a special tax regime in the form of single agricultural tax (SAT), the payers who make pay-outs and other rewards to the disabled, Russian organisations that do business in the field of information technologies, organisations that release the mass media information, some organisations and individual entrepreneurs that apply simplified taxation system (STS) and others.

The amount of insurance contributions is deducted and paid separately into every state off-budget fund.

The insurer pays insurance contributions in the form of mandatory monthly payments no later than the 15th of the following calendar month for the previous month that the payment is calculated.

Reports on pension and medical payments must be provided no later than the 15th of the second calendar month following the reporting period (quarter, half-year, nine months and calendar year).

§8. Storing Personal Data

In the Russian Federation, there is a special process for storing personal data of the citizens of the Russian Federation that prohibits its recording, systematisation, compilation, accessing in order to use databases located outside the Russian Federation. Exclusions are made in the following situations:

- Processing personal data required for achieving the aims provided in the international agreements of Russia or law in order to achieve and perform functions imposed by the legislation of Russian on the operator of personal data;
- Processing personal data required for reaching justice, enforcing of the judgement, the act of another authority or official that must be completed within the framework of enforcement proceedings;
- Processing personal data required for executing the powers of the federal authorities of state executive power of the subjects of the Russian Federation, local authorities and functions of the organisations participating in state and municipal services;
- Processing personal data required for performing professional journalist activities and (or) lawful mass media information activities, or scientific, literature or other creative activities under the condition that the rights and legal interests of the personal data subjects are not violated.

A personal data operator is any individual who is processing personal data. Before the operator starts processing personal data, he or she must notify the authorities of the protection of the rights of the personal data subjects (Roskomnadzor) about their intention to process personal data. Notification must contain the information on the location of the information database containing personal data of the citizens of the Russian Federation.

§9. Citizen Bankruptcy

Citizen bankruptcy procedure is applied from 1st October, 2015 in the Russian Federation. The rules for being declared bankrupt also apply in relation to individual entrepreneur, but a number of features need to be taken into consideration. In order to meet the criteria of the lender, the property of the individual entrepreneur who is in debt is to be sold according to the same procedure that applies to the property of legal entities.

Citizens, lenders, authority bodies (for instance, federal tax service) have the right to appel to court with a claim of declaring the citizen bankrupt. Such claim is accepted by court if the debtor owes at least 500 000 rubles, and the money is not returned within 3 months from the date when it was due. The citizen is regarded as being unable to pay only under one of the following circumstances:

- The citizen stopped paying the lender that is stopped fulfilling financial obligations when they are due;

- More than 10% of the aggregate amount of citizen's financial obligations that are due already have not been fulfilled for more than a month from the day when these obligations were due;
- The amount of citizen's debt is more than the cost of their property, including the right to demand;
- Having a decision on ending enforcement proceeding in relation to the fact that the citizen does not have the property that could be used to recover debt.

In the case of citizen's bankruptcy, it is mandatory that a financial manager who is confirmed by the court participates.

The requirements of citizen's lender are included in the court of arbitration in the registry of lender requirements according to the same rules as during the bankruptcy of legal entities. The requirements can be brought forward by the lender within 2 months from the date of publishing the announcement on officially declaring the citizen bankrupt.

When considering the case on citizen's bankruptcy, the following procedures can be applied: debt restructuring, selling the property, settlement agreement. The deadline for implementing citizen's debt restructuring plan cannot be more than three years.

The court makes a decision on declaring the citizen bankrupt in the following situations:

- The citizen, the lender and (or) authorised body have not provided citizen's debt restructuring plan in the time period established by law;
- Citizen's debt restructuring plan was not accepted in a lender meeting;
- The court has cancelled citizen's debt restructuring plan;
- Citizen bankruptcy case proceedings are renewed if the facts of property concealment by the citizen have been revealed or its unlawful transfer to third parties;
- If the citizen violates the conditions of settlement agreement.

If the court makes a decision to declare the citizen bankrupt, the court makes a decision on following the procedure of selling citizen's property. Property that can be levied in accordance with state procedural legislation is excluded from the bankruptcy estate. Citizen's property is subject to sale at auction.

During the time period of 5 years from the date of declaring the citizen bankrupt, they do not have the right to accept credit agreement and (or) lending agreement liabilities without stating the fact of their bankruptcy.

Chapter 8.
Real Estate in the Russian Federation

§ 1. General Provisions for Real Estate Objects in the Russian Federation

Real estate includes:

- Land plots, sites of subsurface resources;
- Buildings, facilities;
- Incomplete building objects;
- Other objects that are closely connected to the land, that is objects that are impossible to move without disproportionate damage to their purpose, for instance, artificial water bodies (ponds, channels, water reservoirs), perennial plantings (fruit trees, shrubs) and other object;
- Air and water vessels, inland vessels, space facilities.

An organisation as a whole property block that is used for performing business activities is also considered to be real estate. At the same time, an organisation as a property block can include any property (movable or immovable) designed for its activities as well as objects of intellectual property.

The ownership right and other in rem rights to real estate, restrictions of these rights, their occurrence, transfer and cancellation are subject to state registration in a unified state register.

The rights that must be registered:

- Ownership rights;
- The right to perform business activities;
- The right to operations management;
- The right to a lifetime inherited ownership;
- The right to permanent use;
- Mortgage, easement and other rights.

The body that performs state registration of the rights to property and its transactions must provide the information on the registration made and the registered rights to any individual. Information is provided by anybody that performs real estate registration regardless of the location where the registration took place. Before obtaining real estate in Russia, it is important to receive a note from the body in the Registry of Russia that would specify the address of the object of real estate, its owner as well as all the registered restrictions and encumbrance.

§ 2. Taxation of Real Estate in the Russian Federation

The real estate of Russian and foreign organisation is subject to property tax.

The tax is paid not only in relation to real estate that is being used by you. The object of taxation is also the real estate that is rented out for the use for free, for trust management or for joint business ventures according to the agreement of simple partnership. The only thing that matters is who has the ownership rights to the property.

Both Russian and foreign organisations are subject to registration in the tax authority according to the location of the property. First of all, this registration is performed according to the location of the property that belongs to the organisation based on the ownership rights, rights to perform business activities or operations management. This procedure does not require the participation of the taxpayer. The tax authority registers the organisation based on the information received from the bodies that perform cadastral registration and the registration of the rights to property. It happens in the following way: the registration body enters the details on the property object into the relevant register and hands the information over to the tax inspection at their location within 10 working days. The inspection, on the other hand, sends the information into the tax authority according to the location of the property and registers the organisation. The registration is carried out in 5 working days after the tax authority received the necessary information. The Tax Code does not establish specific rules for the registration of foreign organisations according to the location of the property.

In the Russian organisation, the property that is registered on their balance sheet as a fixed asset in accordance with the rules for accounting is subject to tax.

These property objects must meet the following criteria:

1. The property designed to be used for product manufacturing (completing works, providing services), for management needs of the organisation, for providing it for temporary ownership and usage or for temporary usage for money by the organisation.

2. The planned period of time for using the property is more than 12 months or more than the usual operational cycle if it is more than 12 months.
3. Organisation has no intention to sell this property later.
4. The object is able to bring income to the organisation in future.

The procedure for property taxation including immovable property for a foreign organisation depends on having a permanent representation office on the territory of Russia. The taxation object for foreign organisations that perform their activities in Russia through permanent representation office is an immovable property that is a fixed asset. The permanent representation office of the foreign organisation must do accounting of the fixed assets according to the process that is established in the Russian Federation. In this way, the taxation of the property objects of a foreign organisation that has a permanent representation office in Russia is carried out in the same way as the one of Russian organisations.

Foreign organisations without permanent representation office in Russia pay tax only in relation to the property situated on the territory of the Russian Federation. This applies to the property that belongs to the foreign organisation based on the ownership rights or has been received according to the concession agreement.

The value of tax rate on the property is established by regional law on the territory of the relevant subject of the Russian Federation. However, its amount is restricted and cannot be more that 2.2%. At the same time, immovable property objects, in relation to which the tax base is a cadastral value, are subject to taxation by a property tax of the organisation according to the rates established by the law of the relevant subjects of the Russian Federation according to the location of the objects that cannot be more than 2%.

The tax period for organisational property tax is a calendar year. According to the results of the tax period, the taxpayers must submit a tax declaration.

Property tax benefits are established and cancelled by the Tax Code of the Russian Federation and (or) by the relevant laws of the subjects.

In this way, property tax benefits can be divided into:

- Benefits that are established by the provisions of the Tax Code and applied in all subjects of the Russian Federation where property tax is introduced (for instance, religious organisations, All-Russian organisations of disabled people etc. are exempted from taxation);
- Benefits that are provided by the relevant law of the subject of the Russian Federation and are only valid on the territory of this subject.

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How to register an order

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