The Russia-Belarus-Kazakhstan Customs Union

INCLUDING

• Customs Union Background and Basics
• The Next Steps for the Development of a Common Market
• VAT Procures within the Union and between the Union and Third Countries
• Customs Tariff Rates Chart

Welcome to the November issue of Russia Briefing

Nearly two years have elapsed since Russia, Kazakhstan and Belarus boldly began to link their economies by forming a Customs Union planned to evolve into a more ambitious common market by 2012, with Russia as its hub.

While the three states are still a long way off from the eventual Eurasian Union heralded by Russia’s Prime Minister Vladimir Putin as a bridge between Asia and Europe, the agreement has thus far managed to ease trade among the three large former Soviet economies in a rather short period of time.

In this issue of Russia Briefing, we will assess the implications the Customs Union has on trade, looking broadly at the principles and progress of the union thus far, and clarifying key modifications to the VAT procedures for transactions involving the three member states.

Warm regards,

Samantha L. Jones, Senior Editor, Asia Briefing
China Briefing Contact: editor@china-briefing.com

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Russia Briefing

Russia, Kazakhstan and Belarus have launched a Customs Union as a first step towards forming a broader EU-type economic alliance of former Soviet states expected to be introduced in 2012.

On January 1, 2010, the Russia-Kazakhstan-Belarus Customs Union came into effect and as of July 1, 2011, all customs borders between these three states have been removed.

As a result, customs clearance of goods originating in any of these three states, along with goods that have been imported into one of these three states from other countries and released for free circulation, may be transferred between the three states without undergoing customs clearance and customs control procedures.

The leaders of Russia, Belarus and Kazakhstan took their longest stride to date in linking their economies, forming a customs union that they say will soon evolve into a more ambitious common market, with Russia as its hub. The agreement, for now, eases trade among the three large former Soviet economies without abolishing all duties and tariffs.

The three also stopped short of reaching a common position on membership in the World Trade Organization (WTO), something Russia as an individual country has been trying to negotiate since shortly after the Soviet collapse in 1991. The agreement eliminates obstacles to trade and investment that went up after the collapse of the Soviet Union, which could give a boost to the region’s economies by introducing them to greater competition.

The signing was a victory for Russia’s leaders, who have made the Customs Union a pet project for a variety of reasons, notably because Moscow stands to benefit as a natural hub for regional finance and trade. Although beneficial for Russia’s regional standing, the agreement seems to risk derailing its long-delayed membership application for the World Trade Organization.

Kazakhstan’s president, Nursultan Nazarbayev, has stated that Russia, Kazakhstan and Belarus had agreed to apply collectively. If that indeed reflects policy in Moscow, it would most likely push over the horizon any membership for Russia, by far the largest economy outside the WTO. Russian first deputy prime minister, Igor I. Shuvalov, clarified that the countries were still deciding their WTO accession strategy, and hoped to resolve differences on this matter “in the coming weeks.”

Russian president, Dmitri A. Medvedev, said at the signing ceremony that the three countries would try to open their economies fully by the beginning of 2012. The first step is harmonizing customs rules. Later, they will discuss free movement of labour and capital.

“A lot of work remains before the formation of a common economic space,” Mr. Medvedev said, according to comments published on the Kremlin’s website. “But, considering that it really is a beneficial and interesting endeavour, I’m sure we can agree on everything.”
Leaders of Kyrgyzstan and Tajikistan have voiced their interest in potentially joining the union.

Ukrainian President Yanukovych has stated Ukraine is “searching for mechanisms of cooperation that will allow us to work with the Customs Union to the extent which Ukrainian laws and our obligations to world organizations such as the World Trade Organization allow.”

In the longer term, the objective is to create a common economic space by 2012 with freedom of movement of goods, services, labour and capital.

**What does this mean?**

For companies that export goods to Russia, Belarus or Kazakhstan, it will be of key importance to follow-up on the Common External Tariffs which came into force as of January 1, 2010.

The amount of duties to be paid upon importation into Russia, Belarus or Kazakhstan depends not only on the tariff rate which is linked to the classification of the goods concerned, but also on the origin of these goods. There may be options to strategically source the components of goods so that they can be imported against a lower, preferential duty rate. Furthermore, the payable amount of duties is calculated based on the customs value of the imported goods. Usually there are options to lower the customs value currently being used for customs clearance purposes.

The above will also impact other indirect taxes, as the procedure for the payment of VAT and excise tax in the Customs Union will also be regulated by the Agreement on the principles for the collection of indirect taxes upon the export and import of goods between the three countries.

Only goods that qualify as “Customs Union goods” can freely move within the unified customs territory. Pursuant to Article 4 of the Customs Code*, this status is applied to goods when such goods have been:

1. Fully produced in the territory of the Customs Union.
2. Released for domestic consumption with the payment of customs duties at the Unified Customs Rates of the Customs Union.
3. Produced in the territory of the Customs Union from goods fully produced or released for domestic consumption.

Consequently, the principle for determining the status of the goods for customs purposes prevails in trade relations between member states of the Customs Union. Previously, under the CIS (Commonwealth of Independent States) free trade agreement, preferential trade was based on the country of origin of the goods, and this was how trade was conducted among Russia, Belarus and Kazakhstan. Now with the establishment of the Customs Union, it is imperative that goods be recognized by customs authorities as “Goods of the Customs Union” and accordingly be allowed to move freely within the unified customs territory without the restrictions that are imposed on other goods.

Goods which do not meet the criteria for goods of the Customs Union, or for which no documents were presented to show that they originate from a member state or that they were released for domestic consumption in the territory of the Customs Union, are to undergo customs clearance procedures with the (additional) payment of customs duties and the submission of the relevant documents.

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**European Free Trade and Customs Unions**

- **European Union**
- **EFTA**
- **CEFTA**
- **Customs Union**

A significant milestone for the Customs Union of Russia, Belarus and Kazakhstan was reached on 1 July 2010 (6 July 2010 for Belarus) as the Customs Code of the Customs Union went into effect and established a unified customs territory. The Customs Code generally provides for common customs procedures and common rules for goods declaration; common rules for customs duty determination and collection; and Common rules for customs clearing and customs control. The Customs Code has direct effect on the member states and also takes precedence over other provisions of the customs legislation of the Customs Union and national legislation.
The Customs Union of Russia, Belarus and Kazakhstan

**Procedure Flowchart: Exporting Goods from Russia to Kazakhstan**

**RUSSIAN FEDERATION**

1. **Export**
   - Submit e-application by the 15th of the following month
   - Acknowledge receipt within 3 days

2. **KAZAKHSTAN**
   - Give marked applications within 10 days from document submission

**Source:** Schenker Russija, Uwe Leuschner, 2011

**Customs Tariffs Change 2010-2011 by Location**

- **Belarus**
  - Not Changed: 75%
  - Decreased: 18%
  - Increased: 7%

- **Russia**
  - Not Changed: 82%
  - Decreased: 4%
  - Increased: 14%

- **Kazakhstan**
  - Not Changed: 45%
  - Decreased: 10%
  - Increased: 45%

**Changes Represented:**
- Not Changed: Blue
- Decreased: Purple
- Increased: Orange

**Goods:**
- Individual meat items
- Ready-made canned meat
- Individual metal items
- Passenger cars
- Mutton, horsemeat, goat meat
- Ready-made canned meat
- Yeast
- Individual items and clothing accessories
- Transport group (including cars)
- Wood
- Refrigeration equipment
- Pharmaceuticals
- Household appliances
- Clothing and footwear
- Exotic fruit juice concentrates
- Food for baby feeding
- Materials for photographic purposes
- Wool and fabric
- Pharmaceutical substances
- Parts for shoes
- Electric equipment
- Certain types of agricultural products
- Skins
- Optical, medical instruments and devices

**Source:** Schenker Russija, Uwe Leuschner, 2011
Despite the unified customs territory, customs clearance is still undertaken only by the customs authorities of the member-state where the importer resides. This rule is to be applicable during the transitional period, the time limits of which have not yet been established.

**Customs Union:**
**Background Information**

Russia’s prime minister Vladimir Putin has keen to highlight the geopolitical significance that the creation of the Customs Union carries. According to Putin, for the first time since the collapse of the USSR, progress is being made in reconstructing normal economic and trade relations between the three neighboring countries, which will all benefit from a more stable and predictable business environment. The result is a vast emerging market with over 165 million potential consumers. “Business starts working really in the competitive environment,” said Putin.

Russia, Belarus and Kazakhstan will take integration one step further, as Putin announced plans for the three states to sign an agreement next year on the formation of the Eurasian Economic Union to begin in 2013. In the initial stages, the “Eurasian Economic Union” will refer only to the common economic space, though it will ultimately share a common currency and include a free trade zone with the European Union. Putin has anticipated that once the CES has been established, the three countries will be ready to start negotiations with the EU on the organization of a free trade zone. However, it remains to be seen when this common Eurasian Union currency might become a reality. According to Alexei Portansky, Professor of the Higher School of Economics, a common currency may be “in [the] very long term only.”

In November 2010, Russia joined the International Convention on the Simplification and Harmonization of Customs Procedures, Kyoto Convention, most of the provisions of which are already implemented in the Customs Code and the Law on Customs Regulation. Russia’s accession to this Convention is another step towards admittance into the WTO.

Basic principles and main drivers of customs management of the Customs Union:

- Carrying over of customs control on external borders of the Customs Union
- Cancellation of customs procedures for the goods cleared for free circulation in any Customs Union member state
- Joined system of customs transit of the goods on customs territory of the Customs Union
- Possibility of clearance at any customs office of member states of the Customs Union (at the closing stage of formation of the Union)

The key new aspects in the legislation of the Customs Union include:

1) Establishment of a Common Economic Space – an economic union, which is the ultimate integration of the three countries to achieve economic development goals, followed by the harmonization of the three countries’ various policies, including economic policy and industrial support policies. The formal establishment of the Central Asian Economic Union will take some time and effort.

2) Customs duties are posted to a general account and then distributed among the member states of the Customs Union according to national budget:

<table>
<thead>
<tr>
<th>Customs Duties by Location</th>
<th>Russia</th>
<th>Belarus</th>
<th>Kazakhstan</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>87.97 percent</td>
<td>7.33 percent</td>
<td>4.70 percent</td>
</tr>
</tbody>
</table>

The procedure for collecting VAT remains almost unchanged. For trade between member states, VAT will be refunded to the seller of goods in one country (exporter), while the purchaser in the other country (importer) will pay VAT to the tax authorities of its country. VAT rates have not changed, remaining at 18 percent in Russia, 20 percent in Belarus and 12 percent in Kazakhstan. It is unlikely that these rates will be unified in the foreseeable future.

**Common Customs Tariff**

The Common Customs Tariff: uniform rates of customs duties established by the Common Customs Tariff of the Customs Union (CCT CU) will apply to goods imported into the Customs Union from non-member states.

The import duties concerning 11,173 positions have been fixed in the Common Customs Tariff, which covers:

<table>
<thead>
<tr>
<th>Import Duties</th>
<th>1585</th>
<th>7626</th>
<th>217</th>
<th>1745</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ad-valorem duties (0 percent)</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other ad-valorem duties</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Specific duties</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mixed duties</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

The customs declaration procedure has changed. In the case of legal entities only written and electronic declaration forms are provided. A declarant may make changes to a customs declaration both before and after the goods are released. According to information provided by a representative of the Federal Customs Service of the Russian Federation, as of 1 January 2011 all customs posts in Russia can process electronic declarations of goods.

The term for releasing goods is in general reduced from 3 days to 1 day. On the basis of a decision of the customs authority it may be increased to 10 business days.

**Transfer of customs procedure to the external borders**

Plans to transfer customs procedures from internal offices of the three individual states to the external borders of the Customs Union have been finalized. The transfer will be carried out in two stages.

<table>
<thead>
<tr>
<th>Stages of Customs Procedure Transfer to External Borders</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008 – 2010 Preparatory measures, start of the implementation of the transfer in Moscow and St. Petersburg</td>
</tr>
<tr>
<td>2011 – 2020 Transfer of customs procedure to the external borders</td>
</tr>
</tbody>
</table>

By order of the Federal Customs Service dated November 8, 2010 the total reorganization of the customs services in Moscow and the surrounding region took place with 42 customs offices being dissolved. The newly structured Moscow customs service includes only 19 customs offices.
On July 1, 2011 the last remaining customs offices on Russia’s borders with Kazakhstan and Belarus closed, bringing the free-trade zone into operation. The more porous borders are set to expand markets for businesses within the zone and make trade more competitive. Foreign companies already operating in one of the three markets could also benefit from easier access to other states within the union. However, there are some fears that cheaper or fake goods could enter the Russian market via Kazakhstan.

Unified import and export duties are in place, although many exceptions still remain, involving sectors such as pharmaceuticals, plastics and transport equipment.

**Prospects for the future of the Customs Union**

- The pace of integration towards a unified economic zone has been accelerated through the political leadership of the member states, with 2012 set as the deadline.

- After 16 years of accession negotiations Russia is expected to join the WTO at the end of 2011, which will have a positive impact on the economy in the long term.

- The membership of Kazakhstan in the WTO could take place in 2012. Other countries that have expressed an interest in joining the union include Kyrgyzstan and Tajikistan.

- The Custom Union’s unified economic zone is becoming increasingly salient in global trade relations, particularly between Europe and Asia. European Union standards have been evident in the emerging technical regulations and rules of the Customs Union and the Single Economic Space right from the start. Experts believe that this will lead to the establishment of an EU-associated free trade area in a portion of the CIS territory as early as 2015–2020.

“Our new Union and the Single Economic Space … will be open for membership by other countries,” Russia’s Prime Minister Putin said. “This means we are reaching out with a hand of cooperation to our closest neighbors, to our friends, thereby creating conditions for economic modernization and improvement in people’s lives.” The Russian prime minister must have had in mind Ukraine and other CIS countries. But Belarus’ President Alexander Lukashenko went even further to say: “If the European Union or any EU member state wants to join our Union, we will at least look into their application.”

The author can be contacted at: uwe.leuschner@dbschenker.com.
There are three types of custom tariff rates:

**Ad valorem rate**
Fixed as a percentage of customs’ value of goods.

**Specific rate**
Charged from weight, volume, goods item as a fixed amount per unit of dutiable goods. The amount of customs duties which is calculated on the specific rate does not depend on the price of goods.

**Combined rate**
Consisting of an ad valorem and a specific rate and defined as the higher of the two calculated.

<table>
<thead>
<tr>
<th>Goods Category</th>
<th>Ad valorem (%</th>
<th>Specific (Euro)</th>
<th>Combined (% + Euros)</th>
<th>Examples</th>
<th>Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Frequent Rare</td>
<td>Frequent Rare</td>
<td>Frequent Rare Rare</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tobacco</td>
<td>5; 20 10</td>
<td>0.6; 2 EUR/1000</td>
<td>4 EUR/litre</td>
<td>Good Rate</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>30%, not less than 3 EUR/1000 items</td>
<td>Cigars</td>
<td>30%, not less than 3 EUR/1000 items</td>
</tr>
<tr>
<td>Alcohol</td>
<td>15; 20 5</td>
<td>0.4 EUR/kg; 0.12 EUR/kg</td>
<td>2 EUR/kg</td>
<td>15%, not less than 0.060.9 EUR/kg</td>
<td>Malt beer in bottles 0.6 EUR/litre</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10%, not less than 0.05 EUR/kg</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25%, not less than 0.4 EUR/kg</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>80%, not less than 0.7 EUR/kg</td>
<td></td>
</tr>
<tr>
<td>Food</td>
<td>0; 5; 10; 20; 25</td>
<td>0.4 EUR/kg; 0.12 EUR/kg</td>
<td>2 EUR/kg</td>
<td>10%, not less than 15 EUR/kg</td>
<td>Live fish: carp 10%</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>15%, not less than 2 EUR/kg</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>25%, not less than 1.8 EUR/item</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>10%, not less than 3.5 EUR/item</td>
<td></td>
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<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>5%, not less than 0.170.3 EUR/kg</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20%, not less than 2 EUR/kg</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20%, not less than 2 EUR/kg</td>
<td></td>
</tr>
<tr>
<td>Clothes</td>
<td>5; 10; 15</td>
<td>0; 20</td>
<td>0,75 EUR/kg</td>
<td>15%, not less than 0.51.3 EUR/kg</td>
<td>15%, not less than 0.60.8 EUR/kg</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20%, not less than 2 EUR/kg</td>
<td></td>
</tr>
<tr>
<td>Industrial goods (household goods)</td>
<td>5; 10; 15; 20</td>
<td>0</td>
<td>0,75 EUR/kg</td>
<td>15%, not less than 0.51.3 EUR/kg</td>
<td>15%, not less than 0.60.8 EUR/kg</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20%, not less than 2 EUR/kg</td>
<td></td>
</tr>
<tr>
<td>Electronic components</td>
<td>0; 5; 10; 15</td>
<td>7.5</td>
<td>0,75 EUR/kg</td>
<td>15%, not less than 0.51.3 EUR/kg</td>
<td>15%, not less than 0.60.8 EUR/kg</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20%, not less than 2 EUR/kg</td>
<td></td>
</tr>
<tr>
<td>Precious metals/pearls</td>
<td>20</td>
<td>15; 10</td>
<td>0,75 EUR/kg</td>
<td>15%, not less than 0.51.3 EUR/kg</td>
<td>15%, not less than 0.60.8 EUR/kg</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>20%, not less than 2 EUR/kg</td>
<td></td>
</tr>
</tbody>
</table>

**Precious metals/pearls**
20 15; 10
15%, not less than 4 EUR/kg
Silver in the form of ingots 20%
<table>
<thead>
<tr>
<th>Category</th>
<th>Tax Rate</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive components</td>
<td>0; 5; 10; 15</td>
<td>20</td>
</tr>
<tr>
<td>Wood and products from wood</td>
<td>0; 5; 10; 15</td>
<td>7.5</td>
</tr>
<tr>
<td>Mufflers and exhaust pipes</td>
<td>15%</td>
<td>135 EUR/1000 kg, 12.5% not less than 0.4 EUR/kg</td>
</tr>
<tr>
<td>Charcoal</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Technical devices and instruments</td>
<td>0.5; 10; 15</td>
<td>7.5; 8</td>
</tr>
<tr>
<td>5 EUR/item</td>
<td>20%</td>
<td>not less than 21-85 EUR/item</td>
</tr>
<tr>
<td>15% not less than 0.06-2 EUR/item</td>
<td>10%</td>
<td>not less than 0.08-0.36 EUR/item</td>
</tr>
<tr>
<td>5% not less than 1.5-4.5 EUR/item</td>
<td>10%</td>
<td>not less than 4.5-5.4 EUR/kg</td>
</tr>
<tr>
<td>20% not less than 2-6 EUR/item</td>
<td>10%</td>
<td>not less than 0.23-0.6 EUR/item</td>
</tr>
<tr>
<td>Mercury lamps</td>
<td>15%</td>
<td>not less than 0.35 EUR/item</td>
</tr>
<tr>
<td>Minerals</td>
<td>0; 5</td>
<td>13</td>
</tr>
<tr>
<td>Basic metals and goods from them</td>
<td>0; 5; 10; 15</td>
<td>3</td>
</tr>
<tr>
<td>5 %, not less than 0.2 EUR/kg</td>
<td>20%</td>
<td>not less than 4 - 22 EUR/kg</td>
</tr>
<tr>
<td>5%, not less than 0.2 EUR/kg</td>
<td>10%</td>
<td>not less than 0.5 EUR/kg</td>
</tr>
<tr>
<td>Copper foil thinner than 0.6 mm</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Machine tools and robotic equipment</td>
<td>0; 5; 10; 15</td>
<td>15; 20</td>
</tr>
<tr>
<td>Roller conveyors</td>
<td>0%</td>
<td></td>
</tr>
<tr>
<td>Ancillary railway equipment</td>
<td>0; 5; 10; 15</td>
<td>15</td>
</tr>
<tr>
<td>Safety device or traffic control equipment for railways</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>0; 5; 10; 15</td>
<td>20; 25</td>
</tr>
<tr>
<td>2.2-5.8 EUR/cu cm</td>
<td>30%</td>
<td>not less than 1.2-2.8 EUR/cu cm</td>
</tr>
<tr>
<td>35%, not less than 1.2-2.8 EUR/cu cm</td>
<td>20%</td>
<td>not less than 1.5-4.5 EUR/cm</td>
</tr>
<tr>
<td>Motorbikes with an engine more than 800 cu cm</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Mining and oil drilling equipment</td>
<td>0; 10; 15</td>
<td>5</td>
</tr>
<tr>
<td>Drill pipes used in oil wells</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Turbine (power generation) equipment</td>
<td>8; 10; 15</td>
<td></td>
</tr>
<tr>
<td>Hydraulic turbines</td>
<td>15%</td>
<td></td>
</tr>
<tr>
<td>Chemical products</td>
<td>5; 10; 15</td>
<td>0</td>
</tr>
<tr>
<td>15%, not less than 0, 135 EUR/kg</td>
<td>20%</td>
<td>not less than 0.06 EUR/kg</td>
</tr>
<tr>
<td>Acetone</td>
<td>5%</td>
<td></td>
</tr>
<tr>
<td>Pharmaceutics</td>
<td>0; 5; 10; 15</td>
<td>0</td>
</tr>
<tr>
<td>Medicine containing insulin</td>
<td>0%</td>
<td></td>
</tr>
</tbody>
</table>
A passenger exiting a flight from Kazakhstan or Belarus in Moscow now passes through a separate exit without any customs control -- the introduction of the Russia, Belarus and Kazakhstan Customs Union has brought about some noticeable changes not only to daily life, but to VAT procedures as they apply to business transactions.

In this article, we will discuss VAT procedures as they apply to:

I. Customs Union Tax Basics
II. Deliveries from Third Countries into the Customs Union
III. Deliveries from the Customs Union to Third Countries
IV. Deliveries within the Customs Union

I. Customs Union Tax Basics

VAT procedures in Russia, Belarus and Kazakhstan Customs Union are in general similar to those in the European Union, however, there are important differences regarding cross-border deliveries.

There are uniform principles for the treatment of indirect taxes in Russia, Belarus and Kazakhstan.

All deliveries within the Customs Union are treated as exports and are subject to a VAT rate of 0 percent. Import VAT has to be paid, but to the relevant tax authorities rather than the customs authorities.

VAT tax rates are not uniform across the Customs Union, but rather vary by location. The following rates apply:

**VAT Rates by Location**

<table>
<thead>
<tr>
<th>Rate</th>
<th>Country</th>
</tr>
</thead>
<tbody>
<tr>
<td>18%/10%</td>
<td>Russia</td>
</tr>
<tr>
<td>20%</td>
<td>Belarus</td>
</tr>
<tr>
<td>12%</td>
<td>Kazakhstan</td>
</tr>
</tbody>
</table>

The regulations of the Customs Union have priority over national legislation, however, procedural law remains primarily national. The following differences should be noted:

- In contrast to Russia and Belarus, Kazakhstan has a VAT registration process separate from that of all other taxes
- Deadlines for VAT declarations and due dates for payment of VAT are regulated nationally
- There is no uniform VAT ID, unlike the situation in the European Union

Inconsistencies

The changes that Customs Union has brought to daily life are often inconsistent. For example, whereas purchasing an air ticket from Moscow to Minsk (a foreign service) continues to be without VAT, there is now no duty free shopping before departure on flights from Almaty (Kazakhstan) to Moscow.
II. Deliveries from Third Countries into the Customs Union

Prior to importing goods into a country of the Customs Union, the following must be done:

- Certificate of origin must be shown, if applicable
- Customs duty must be paid
- Import VAT must be paid to the customs authority (20%, 18% or 12%)

The following documents are required for accounting and tax purposes:

- Customs declaration, including confirmation of the payment of import VAT
- Reconciliation of balances with the customs authorities

Reimbursement of import VAT may be made in the VAT declaration according to the following schedule, depending on location:

<table>
<thead>
<tr>
<th>Import VAT Reimbursement Dates by Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
</tr>
<tr>
<td>Belarus</td>
</tr>
<tr>
<td>Kazakhstan</td>
</tr>
</tbody>
</table>

The usual practice followed if a VAT declaration results in an input VAT surplus also depends on location:

<table>
<thead>
<tr>
<th>Input VAT Surplus Practice by Location</th>
</tr>
</thead>
<tbody>
<tr>
<td>Russia</td>
</tr>
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</tr>
<tr>
<td>Kazakhstan</td>
</tr>
</tbody>
</table>

All countries (Russia, Belarus, Kazakhstan)

- Export documents are prepared with a VAT rate of 0 percent
- Failure to submit export documents within 180 days automatically leads to VAT being charged on shipments which have been treated as exports

Russia

Input VAT deduction can be made only after showing the export certificate of Russian customs authorities, receipt of payment from the client and some further documents (a bureaucratic and time consuming process).

Belarus

Input VAT deduction can be made only after confirmation of export, receipt of payment from clients and presentation of further documents.

However, this process is faster than in Russia and the claim can be made on a monthly basis

Kazakhstan

Input VAT deduction can be made only after the confirmation of export and presentation of further documents. Receipt of payment from customers is not required.

IV. Deliveries within the Customs Union

For deliveries within the Customs Union, the export VAT rate is 0 percent, while import VAT payment is made depending on the appropriate national rate (i.e. 20 percent, 18 percent or 12 percent).

Payment of import VAT must meet the following requirements:

- Payment of import VAT is made not to customs authorities, but to tax authorities
- Payment is not needed before import
- Payment is made within a separate monthly tax declaration for indirect taxes

VAT Procedures in the Russia, Belarus and Kazakhstan Customs Union

The deadline and date of payment is monthly on the 20th for the previous month

Import VAT credit is in the form of input VAT in the regular VAT declaration

Declaration of indirect taxes

For all 3 countries, using the regular VAT declaration, submission is required by the 20th of the following month, while payment is required by the 20th of the next month.

Input VAT Reimbursement Schedule

<table>
<thead>
<tr>
<th>Input VAT Reimbursement Schedule</th>
</tr>
</thead>
<tbody>
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</tr>
</tbody>
</table>

Summary

While the workload for the provision of VAT documents remains much the same, the procedures involving import VAT and the resulting cash flow effects leave much to be desired when compared with the neighboring European Union. Furthermore, it should be noted that there are often issues with the uniform treatment of VAT for services provided within the Customs Union from one country to another, making this a priority for authorities to review.

Companies have another cause for complaint, as many had hoped that the Customs Union would allow DDP (Delivery Duty Paid) deliveries to all three member states of the Customs Union, with registration in only one of the three countries. However, because of the unchanged requirement for import VAT to be paid when delivering from one member state to another, registrations are still required in all relevant countries. Nonetheless, the members of the Customs Union have undertaken an important step in the right direction towards easing trade.

The authors can be contacted at: SchneiderU@russia-consulting.eu; AllenM@russia-consulting.eu.
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Suzhou suzhou@dezshira.com
Guangzhou guangzhou@dezshira.com
Zhongshan zhongshan@dezshira.com
Shenzhen shenzhen@dezshira.com
Hong Kong hongkong@dezshira.com

The India Practice
Delhi delhi@dezshira.com
Kolkata kolkata@dezshira.com
Mumbai mumbai@dezshira.com
Bangalore bangalore@dezshira.com
Chennai chennai@dezshira.com

The Vietnam Practice
Hanoi vietnam@dezshira.com
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