SCHNEIDER GROUP consults and provides its international clients with the back office services they need to expand their business into or within Russia, Kazakhstan, Belarus, Ukraine, Poland and Germany.

Accounting regulations and practices in Russia underwent a number of changes with the most important probably being the introduction of electronic document interchange. With this brochure we intend to give a guiding overview of rules and regulations for Russian accounting and hands-on information about current tax rates and common practices in this field.

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accounting

Development of Russian accounting
All companies in the Russian Federation are obliged to keep accounting records.

The accounting is based on primary documents that are prepared in prescribed formats. Each aspect of economic activity of a company is subject to documentation; therefore the organization of an effective document flow is one of the most important tasks of the accountant.

The accounting reform which has begun in Russia is leading towards significant changes in the rules concerning the preparation of primary documents, how to record them in accounting ledgers, and overall changes in the system of accounting document flow.

The current Law on Accounting No. 402-FZ that came into force as of January 2013 was considered a breakthrough step in further development of Russian Accounting Standards (RAS). The major impacts can be seen in the following areas:

- Financial accounting for a subdivision of a foreign company in Russia (branches, representative offices etc.) is not obligatory when tax accounting is performed.
- Financial statements are to be signed only by the General (Managing) Director.
- Qualification requirements, such as a higher education in economics and work experience in accounting and audit, are applied to the person responsible for the accounting in certain types of companies (e.g. open joint-stock and insurance companies, funds, listed companies, accounting outsourcing firms).
- Internal control activities over operations should be performed in each company. This function is particularly important for a company that is subject to an obligatory audit, as it is required to have internal controls over the accounting process and preparation of the financial statements. All regulations for internal control systems are designed by the company itself (except open joint-stock, credit and insurance companies).
- It is now possible to prepare source documents in an electronic format with a digital signature and to exchange these documents with contractors via a certified operator.
- Companies are allowed to develop their own format of accounting documents and registers while keeping certain obligatory fields (e.g. date, transaction description, and value).
- Annual accounting statements submitted to the statistics office have become public information, and access to this information is regulated.

Despite the trend in accounting legislation of a gradual harmonization of RAS with IFRS, there are many differences in daily accounting between them, connected mainly with documentation support. This matter is looked at in more detail in the next section.

Important points in Russian accounting
This introduction may seem very formal, but it characterizes Russian accounting, which is also affected by the requirements of the Russian Tax Code. Requirements of the Russian government have been playing a leading role in accounting. Thus, Russian companies have to use a standardized chart of accounts which is determined by government regulations and can only be slightly amended according to the requirements of a company.
It can be assumed that the accounting work is several times more voluminous in Russian accounting than in comparable circumstances in Western countries. In addition, the supporting documentation to be provided by either third parties or by the company itself is at least four times greater.

This can be demonstrated by the following:

- A contract, such as a consulting services agreement with fixed monthly payments is not sufficient evidence to support consulting expenses. Even a monthly invoice is not sufficient. The invoice is the basis for authorizing a bank transfer; however, the payment has to be initially recorded as an advance payment to a service provider. Only after the provider has issued a so-called “act” (a formal statement of acceptance of a service) which contains a breakdown of the services provided can the advance payment be transferred to the expense account.
- Profit tax returns, as well as the majority of other tax returns, have to be submitted to the authorities on a quarterly, rather than a yearly basis.
- In addition to tax returns and reports to the social security funds, additional reports have to be submitted to the statistics office. The submission periodicity of statistical reports depends on their nature, and may occur on a monthly basis, yearly basis, or anything in-between. Altogether, at the end of a quarter, a company may have to submit more than 10 reports to the state authorities.
- Payments to or from a foreign company are subject to currency control procedures. Before the bank can make payments for a contract of the total amount of 50,000 USD or higher (incl. VAT), the Russian company has to submit the underlying contract, the related invoice and numerous other forms to the bank in order to open a “passport of deal”. Within it, special forms and supporting documents for each currency operation are provided to the bank. Also, the bank may have additional requirements when processing these documents.
- As there are some optional accounting principles for both tax and financial accounting, each company, on a yearly basis, has to define which principles it intends to apply. Then they must document this in their “Accounting and Tax Policy”, and strictly follow these rules. This document should be provided to the tax authorities at their request.
- Matching revenue and expense, as practiced in the West, is not widely practiced in Russia, especially in small and medium-sized companies. Russian Accounting Standards require such matching; however accountants still tend to recognize revenue and expenses based on the actual receipt of supporting documents, as this is an obligatory requirement for tax accounting.

To a large extent, Russian accounting practices are aimed at proper accounting for the purposes of tax calculations rather than presenting a true and fair view of the financial position of a company.

It should be pointed out that the General (Managing) Director of a company bears significant responsibility for the company’s accounting function and compliance of its operations with legislation.
Electronic Document Interchange (EDI)
The specifics and practical aspects of Russian accountancy are very well known to foreign companies which are operating in the Russian Federation. Documents like the act, nakladnaya and schet-factura require hours of printing, manual stamping and signing, mailing and storing. All these processes are very time consuming.

The Federal Law of the Ministry of Finance, FZ-402 caused a real “revolution” in Russian accounting. One of its most important solutions was the introduction of the Electronic Document Interchange (EDI). Accounting documents can now be created, signed, sent, confirmed and archived electronically.

EDI significantly simplifies document flow between two companies and saves hours of work. This puts an end to piles of paperwork and facilitates document interchange transparency. Thus it is possible to create, interchange and confirm the following documents in electronic form, legally binding and acceptable by the Tax authorities:

- VAT-invoice („schet-faktura“)
- Agreement
- Goods acceptance protocol („nakladnaya“)
- Reconciliation act
- Service acceptance protocol („act“)

This topic is presented in details in our brochure “50% more efficiency with B2B e-Docs for the act, nakladnaya, schet-factura”.

Unified Transfer Act*
The so-called Unified Transfer Act (UTA) was introduced by the tax authorities in 2013 and combines the act (or nakladnaya) and schet-factura what reduces the number of printed primary documents and the time needed for their preparation.

- It is not obligatory to use UTA, but a recommendation.
- Use of the UTA should be regulated by the Accounting and Tax Policy of a company.
- The UTA can be used to support expenses for profit tax purposes, as well as to support an incoming VAT deduction.

The UTA is to be prepared on the date of transaction. This differs from the VAT invoice which can be prepared within five days after the transaction occurred.

* At the moment there is no unified format to interchange via EDI. Nevertheless, the interchange of such document is possible as a packet of two documents which it combines.
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### Tax rates

<table>
<thead>
<tr>
<th>Tax</th>
<th>Rate and Details</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Profit Tax</strong></td>
<td>20% (a reduction down to 15.5% is possible in special economic zones and certain regions)</td>
</tr>
<tr>
<td><strong>VAT</strong></td>
<td>0%, 10%, 18%</td>
</tr>
<tr>
<td><strong>Dividend Tax</strong></td>
<td>15% (for payments abroad, may be reduced to 5% depending on the double taxation treaty)</td>
</tr>
<tr>
<td><strong>Property Tax</strong></td>
<td>up to 2.2%</td>
</tr>
<tr>
<td><strong>Personal Income Tax</strong></td>
<td>13% for residents, 30% for non residents</td>
</tr>
<tr>
<td></td>
<td>13% on salaries of highly qualified specialists (HQS) independent from their tax residence</td>
</tr>
<tr>
<td></td>
<td>13% for residents, 15% for non residents on dividends</td>
</tr>
<tr>
<td></td>
<td>35% on special kinds of income</td>
</tr>
<tr>
<td><strong>Social Contributions</strong></td>
<td>30% – 15.1% (0% for temporarily staying HQS)</td>
</tr>
<tr>
<td></td>
<td>22% pension fund (up to 796,000 RUB in 2016, then 10% until the end of the year)</td>
</tr>
<tr>
<td></td>
<td>2.9% social security fund (up to 718,000 RUB in 2016, then 0% until the end of the year) for temporarily staying foreign employees excluding HQS</td>
</tr>
<tr>
<td></td>
<td>1.8% fund of medical insurance (no limits are foreseen)</td>
</tr>
</tbody>
</table>
Profit tax
Russian and foreign companies that are carrying out activities through a permanent establishment and / or receiving income from sources in the Russian Federation are deemed to be payers of profit tax. The tax rate is 20% (some regions also provide tax incentives or rate reduction).

Statutory and tax accounting
The rules for tax accounting are different from the rules for financial accounting, for example:

- Most reserves which are required to be created since 2011 in financial accounting are either prohibited or are not required in tax accounting.
- Interest paid on loans given for the purpose of goods purchase is a part of the acquisition cost in financial accounting. For tax purposes, it is not capitalized but immediately expensed.
- For most classes of fixed assets, a special one time depreciation rate of 10% (in some cases 30%) is allowed for tax purposes at the moment of purchase. If a taxpayer has used the 10% depreciation rate, then only 90% of the historical cost is subject to further depreciation. Also, it should be noted that the claw-back rule for the 10% (or 30%) depreciation rate should be applied if the taxpayer sells the fixed asset to a related party in the next five years.

Some expenses can only be deducted for profit tax purposes up to a specific maximum amount, for example:

- Certain advertising expenses - up to 1% of revenue.
- Client entertainment expenses - up to 4% of payroll cost.
- Employer premiums for life and pension insurance for the employees - up to 12% of payroll cost.

- The limit for the deduction of expenses on employees' voluntary personal medical insurance is 6% of payroll cost (if the insurance contract is concluded for minimum one year).
- Deductibility of loan interest rates is limited if the loan was provided by the related party.

Reporting and tax payments
Advance payments for profit tax are due by the 28th day following each quarter. The advance is based on the profit of the previous quarter. However, if during the previous four quarters the average quarterly revenue of the company was greater than 15 million RUB, such advance profit tax payments are due on a monthly basis. Companies may also choose to pay profit tax monthly based on actual profits and losses. In this case the profit tax returns will be submitted on a monthly basis.

Profit tax returns have to be submitted on a quarterly basis and are due by the 28th day following each quarter. The yearly tax return is due on March 28th of the following year. Within these time limits, any tax due has to be calculated and remitted.
Transfer pricing
From January 2012 new transfer pricing regulations came into force. According to the legislation, the following transactions are subject to control:

Cross-border transactions
• Transactions between related parties (e.g. a supply agreement between a foreign parent-company and Russian subsidiary). Please note that these transactions are subject to control without any limits; thus, all transactions between the foreign parent-company and Russian subsidiary will be subject to control. Also, these transactions will be subject to control even if they are performed through third parties (such as dealers, agents) which do not perform any additional functions, do not assume any risks, and do not use any assets for arranging the sale of goods (or performance of work, provision of services).

• Transactions with independent parties located in the territories deemed by the Ministry of Finance as offshore zones (the so called "black list") and transactions with exchange traded commodities (crude oil and oil products, ferrous and non-ferrous metals, fertilizers, precious metals and gemstones) are controlled if the transaction amount exceeds 60 million RUB per calendar year.

In these cases the abovementioned limit of 1 billion RUB reduces to 60 million RUB.

Transactions with an aggregate income of more than 100 million RUB per calendar year, in case one party applies the unified agricultural tax or a unified imputed income tax (regarding certain types of activities) while the other party pays profit tax under the general rules. Such transactions are subject to control starting from January 1, 2014.

In particular the parties will be considered to be related if one party directly or indirectly controls more than 25% of the entity of the other party; one person holds a share greater than 25% of both entities, as well as if the two parties have the same individual as the General Director, or more than 50% of the Board of Directors of these companies are the same individuals or are appointed / chosen by the same individual.

Please note that the tax authorities can go to court to establish that two companies are deemed to be related on "other" grounds which are not directly provided by the law.

The new rules are largely in line with the OECD Transfer Pricing Guidelines and will require documentation.

This topic is presented in detail in our brochure "Transfer Pricing".
**Transactions in Russia**

- For transactions between related parties, if the transaction amount exceeds 1 billion RUB starting from 2014, the transactions are controlled unless the following conditions apply:
  - The transactions are performed between members of the same consolidated group of taxpayers or
  - Both parties are registered within the same region of Russia; do not have economically autonomous subdivisions in other regions of Russia, do not pay income tax to the budgets of other regions, do not have tax losses and are not payers of Mineral Extraction Tax or other specific taxes.

- If one party of the transaction is:
  - Exempt from profit tax or applies a 0% tax rate
  - A taxpayer of an extraction tax on commercial minerals
  - A resident in a special economic zone while the other is not a resident in same special economic zone (the provision is effective since January 1, 2014)

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Value-added tax (VAT)
Companies (except VAT-exempted companies) have to account for and pay value-added tax (VAT). Most sales of goods and services are taxable. The general tax rate is presently 18%; the reduced VAT rate is 10%, and 0% is provided for exported goods, international transportation and freight-forwarding services.

In principle, the VAT law in the Russian Federation is comparable to the law in the EU. However there are some differences, for example:

- In order to recover VAT paid to the supplier / contractor, the so-called “schet-factura” from the supplier is necessary.
- When importing goods into Russia, import VAT must be paid to the customs office. This tax is payable immediately, otherwise customs will not release the goods. Such VAT payment, however, can only be claimed back (recovered) after the goods are customs-cleared and actually received. This means that import VAT cannot be claimed (recovered) before the VAT is actually paid. For deliveries between the countries of the Customs Union, special regulations are applicable. Thus, a VAT rate of 0% applies for export to Custom Union countries, as it does for export in non-member countries, but the importer must declare the import and pay import VAT not at the border, but at their local tax authority.
- For company promotional materials (such as catalogues and brochures), VAT has to be added according to the market value. This rule is also applied if such materials are given away for free. If the market value cannot be clearly identified, the cost to the company has to be applied as the VAT calculation basis. The handover of goods (works or services) for the purposes of advertising with a prime cost not exceeding 100 RUB per unit is not subject to VAT.

The VAT return has to be submitted on a quarterly basis. Payment is due on the 25th day of each month following the quarter-end and then not less than 1/3 of the quarterly VAT amount should be paid.

Companies must submit VAT returns not later than the 25th day of each month following the quarter in electronic format only. The rule is obligatory for all VAT taxpayers. Companies whose activity is exempt from VAT or is not subject to VAT (but which still should report paid agent VAT) are also obliged to submit declarations in electronic format.

**e-commerce**
Starting January 1st, 2017, foreign companies which provide electronic services or sell internet content to Russian users, should register at Russian tax authorities and pay VAT. If the services are rendered to a Russian legal entity or through a Russian agent, then the Russian legal entity or the Russian agent, which actually act as the tax agents, should keep the VAT. If the services are rendered to the Russian physical person directly or through a foreign agent, then they have to pay the VAT to the budget. In this case foreign companies have to register in the Russian Federation as a VAT payer. Therefore there exists a special procedure for the registration of foreign companies at the Russian tax authorities. The cooperation with the foreign VAT payer-organizations will be carried out electronically on the website of the Federal Tax Service of the Russian Federation (FNS).
Social insurance contributions
All expenses on social payments are paid by the employer. These payments consist of:
• Payments to the pension fund
• Payments to the social insurance fund
• Payments to the federal medical insurance fund
The following contribution rates were enacted for 2016:

<table>
<thead>
<tr>
<th>Fund</th>
<th>Tax status of the individual - threshold</th>
<th>Citizen of the RF</th>
<th>Permanently residing foreign employee (permanent residence permit)</th>
<th>Temporarily residing foreign employee (temporarily residence permit – passport endorsement)</th>
<th>Temporarily staying foreign employee (visa / non-visa regime)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension fund</td>
<td>up to 796 000 RUB</td>
<td>22%</td>
<td>22%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>above 796 000 RUB</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
<td>10%</td>
</tr>
<tr>
<td>Social Security Fund</td>
<td>up to 718 000 RUB</td>
<td>2.9%</td>
<td>2.9%</td>
<td>2.9%</td>
<td>1.8%</td>
</tr>
<tr>
<td></td>
<td>above 718 000 RUB</td>
<td>-</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Fund of Medical Insurance</td>
<td>no threshold</td>
<td>5.1%</td>
<td>-</td>
<td>5.1%</td>
<td>-</td>
</tr>
<tr>
<td>Total</td>
<td>up to thresholds</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>718 000 RUB</td>
<td>30%</td>
<td>30%</td>
<td>24.9%</td>
<td>30%</td>
</tr>
<tr>
<td></td>
<td>above 718 000 RUB</td>
<td>27.1%</td>
<td>27.1%</td>
<td>22%</td>
<td>22%</td>
</tr>
<tr>
<td></td>
<td>above 796 000 RUB</td>
<td>15.1%</td>
<td>15.1%</td>
<td>10%</td>
<td>10%</td>
</tr>
</tbody>
</table>

* Highly qualified specialists

Companies have to calculate and pay social insurance contributions not later than the 15th day of the following month. Since 2015 special dates of accounts are foreseen for submission of reports in electronic format.

Starting January 1, 2017, the control and administration function of the insurance premiums will be passed over to the FNS. The calculation and the payment of the insurance premiums for the binding pension, social and health insurance are regulated by the Tax Code of the Russian Federation.
On a quarterly basis, the employer shall file the following documents:

1) Not later than on the 15th day (on the 20th day for electronic format) of the second calendar month that follows the reporting quarter, a company should submit the report on the calculation of social contributions on obligatory pension insurance and medical insurance, and also the calculation information about each insured person is to be reported.

2) Not later than on the 20th day (on the 25th day for electronic format) of the calendar month that follows the reporting quarter, a company should submit a report to the social insurance fund on obligatory social insurance in case of temporarily disability and contributions for employee maternity benefits.

Recently, the pension fund has toughened its demands on timely and infallible submission of reports. In practice, it is recommended to submit the abovementioned reports in electronic format (for most companies this is the obligatory method of submission) to avoid penalty payments.

**Occupational accident insurance**
In addition to the unified social tax, each employer has to contribute to an obligatory group accident insurance plan. The rate varies between 0.2% and 8.5% and depends on the type of business. For example, the rate for trading companies is 0.2% and for transportation companies 0.7%.
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Personal income tax

A company paying wages and salaries must withhold personal income tax and transfer it to the tax authorities. The tax is calculated at a flat rate of 13%, and no significant allowances are granted.

If a person receiving income spends less than 183 days in Russia within any 12 month period (and does not fall under the category of tax residence in Russia) the tax rate is 30%. Based on the most Double Taxation Treaties (DTT), no Russian tax is due up to the 182nd day if the salaries are paid abroad, the foreign entity bears the labour costs and the remuneration is not borne by a permanent establishment located in Russia. These conditions are foreseen, in particular in the DTT with the United Kingdom, Germany, France, Italy and others.

The current legislation allows using a 13% tax rate on a Russian salary for foreign employees who are HQSs, beginning from the first day of their work and notwithstanding the duration of their stay in Russia. However, such a rate is applicable only for remuneration for the work. Therefore, in case the HQS receives compensation for renting an apartment and other remunerations not connected with work, such income is taxable at a rate of 30% (unless he / she changes his residency status). In order to be eligible to obtain a visa and work permit as a HQS, the foreign employee should receive not less than 167 000 RUB per month. The salary should be paid in Rubles but may be transferred to the employee’s account abroad.

The tax rate on dividends is stipulated as 13% for tax residents and 15% for non residents if other tax rate is not foreseen in a double tax treaty concluded between the Russian Federation and the respective state.

In respect of the prizes and winnings, interests on bank deposits (above stipulated threshold), benefits from the receipt of loans with favourable interest rates or interest free loans are taxable at the rate of 35%.

In the course of the year, a company has to regularly transfer the withheld taxes to the tax authorities. The payment is due on the day the salary is transferred to the employees’ bank account, or on the day the salary is withdrawn from the company’s bank account if the salary is paid in cash. At the end of the year, companies have to submit special forms to the tax authorities with a list of all amounts withheld for each employee.
Property tax

All Russian and foreign companies owning fixed assets in Russia must pay property tax. The tax base is, for certain kinds of real estate, the cadastral value, and in other cases the residual value of fixed assets (i.e. the cost of acquisition minus accumulated depreciation).

Land, intellectual property, and assets under construction are not subject to property tax. It is, therefore, not a “wealth tax” such as applied (or was applied) in some Western countries where, generally speaking, assets minus liabilities are taxed.

Moveable assets that were put into operation after January 1, 2013 are not subject to property tax. Fixed assets that were put into operation before 2013 are still subject to taxation independently from their mobility.

The definition of immoveable assets is stated in article 130 of the Civil Code of the Russian Federation. Immoveable assets are tangible assets, like premises, subsurface sites, and objects for renting, e.g. buildings and construction projects. Airplanes and ships are also considered as immoveable assets. It is obligatory to register the ownership of immoveable assets with the State. Tangible assets which are not clearly defined in the Civil Code are considered moveable assets, e.g. machine tools and production lines.

Since January 1, 2014, the tax base for certain kinds of real estate, like shopping centers or office buildings, is the cadastral value. Other real estate objects, like factory buildings, continue to be taxed according to their book value. But this new regulation is not yet introduced nationwide. Currently it applies only to real estate objects in Moscow and the Moscow Region. Every year the list of regions which switched to the calculation of the property tax on the basis of the cadastral value becomes longer. Furthermore, the appraisal of the cadastral value is not yet done for all real estate objects. So, property tax for real estate objects in Moscow or the Moscow Region that is not yet appraised is still assessed according to the book value. An expansion of the new rules to other regions of Russia is planned for 2015. Due to the taxation according to the cadastral value the tax base is not reduced by the depreciation of the building. Thus, the amendment usually increases the tax burden compared to the taxation according to the book value, even though the tax rate is nominally lower. In this context annually increasing tax rates have been introduced. As the property tax is a regional tax, the regions can stipulate tax rates up to a maximum established by the Tax Code:

<table>
<thead>
<tr>
<th>Year</th>
<th>Moscow</th>
<th>Moscow Region</th>
</tr>
</thead>
<tbody>
<tr>
<td>2014</td>
<td>1.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2015</td>
<td>1.7%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2016</td>
<td>2.0%</td>
<td>1.3%</td>
</tr>
<tr>
<td>2017</td>
<td>1.4%</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>1.5%</td>
<td></td>
</tr>
</tbody>
</table>

If the tax base is calculated according to the book value, the tax rate can be as high as 2.2%, which is charged, for example, in Moscow. The tax return has to be submitted quarterly by the 30th day following the quarter-end. The tax has to be paid within 30 days after quarter-end, but at year-end the payment is due on March 30th of the following year.

* According to the Tax Code of the Russian Federation
** According to regional law
Property tax

All Russian and foreign companies owning fixed assets in Russia must pay property tax. The tax base is, for certain kinds of real estate, the cadastral value, and in other cases the residual value of fixed assets (i.e. the cost of acquisition minus accumulated depreciation). Land, intellectual property, and assets under construction are not subject to property tax. It is, therefore, not a “wealth tax” such as applied (or was applied) in some Western countries where, generally speaking, assets minus liabilities are taxed.

Moveable assets that were put into operation after January 1, 2013 are not subject to property tax. Fixed assets that were put into operation before 2013 are still subject to taxation independently from their mobility.

The definition of immoveable assets is stated in article 130 of the Civil Code of the Russian Federation. Immoveable assets are tangible assets, like premises, subsurface sites, and objects for renting, e.g. buildings and construction projects. Airplanes and ships are also considered as immoveable assets. It is obligatory to register the ownership of immoveable assets with the State. Tangible assets which are not clearly defined in the Civil Code are considered moveable assets, e.g. machine tools and production lines.

Since January 1, 2014, the tax base for certain kinds of real estate, like shopping centers or office buildings, is the cadastral value. Other real estate objects, like factory buildings, continue to be taxed according to their book value. But this new regulation is not yet introduced nationwide. Currently it applies only to real estate objects in Moscow and the Moscow Region. Every year the list of regions which switched to the calculation of the property tax on the basis of the cadastral value becomes longer. Furthermore, the appraisal of the cadastral value is not yet done for all real estate objects. So, property tax for real estate objects in Moscow or the Moscow Region that is not yet appraised is still assessed according to the book value. An expansion of the new rules to other regions of Russia is planned for 2015. Due to the taxation according to the cadastral value the tax base is not reduced by the depreciation of the building. Thus, the amendment usually increases the tax burden compared to the taxation according to the book value, even though the tax rate is nominally lower. In this context annually increasing tax rates have been introduced. As the property tax is a regional tax, the regions can stipulate tax rates up to a maximum established by the Tax Code:

<table>
<thead>
<tr>
<th>year</th>
<th>Moscow</th>
<th>Moscow region</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>max. tax rate *</td>
<td>stipulated tax rate**</td>
</tr>
<tr>
<td>2014</td>
<td>1.5%</td>
<td>0.9%</td>
</tr>
<tr>
<td>2015</td>
<td>1.7%</td>
<td>1.2%</td>
</tr>
<tr>
<td>2016</td>
<td>2.0%</td>
<td>1.3%</td>
</tr>
<tr>
<td>2017</td>
<td>2.0%</td>
<td>1.4%</td>
</tr>
<tr>
<td>2018</td>
<td>2.0%</td>
<td>1.5%</td>
</tr>
</tbody>
</table>

* According to the Tax Code of the Russian Federation
** According to regional law

If the tax base is calculated according to the book value, the tax rate can be as high as 2.2%, which is charged, for example, in Moscow. The tax return has to be submitted quarterly by the 30th day following the quarter-end. The tax has to be paid within 30 days after quarter-end, but at year-end the payment is due on March 30th of the following year.
Simplified Taxation System

Several companies may choose a simplified taxation system. This system applies only one tax instead of the otherwise customary taxes such as:

- Profit tax
- VAT (except VAT on imports)
- Property tax

A newly formed company loses the right to apply a simplified taxation system if, according to the balance sheet during a reporting period, the income exceeded 60 million RUB (the threshold increase up to 120 million RUB is planned as of January 1, 2017) multiplied by deflator coefficient or the following conditions are met:

- The net book value of fixed assets exceeds 100 million RUB
- Other companies hold more than 25% of the share capital (for foreign investors, the simplified taxation is therefore usually not possible)
- The number of employees exceeds 100
- The company should not have branches
- Certain companies, such as banks, production companies etc. are not allowed to use the simplified system.

Two options can be chosen within the simplified system:

1) All revenues are taxed at 6%. Through laws the regions can set tax rates of 1-6%, depending on the categories of the taxpayers. Revenues are defined as all cash receipts (except capital contributions and loans) in the cash register or in the bank account (cash method).

2) The difference between receipts and expenses is taxable. The tax rate is 15%. Through laws the regions can set differentiated tax rates of 5-15%, depending on the categories of the taxpayers. Expenses are only recognized when they are actually paid (cash method). If expenses exceed revenues, a minimum tax is due based on 1% of revenue. The scope of expenses which could be deductible under the simplified taxation system is restricted and is not as comprehensive as in the general taxation system. For example, fewer expenses are deductible under the simplified system, such as staff recruitment costs.

The yearly tax return has to be submitted by March 31st of the following year. The final tax payment is also due on that day, but during the year companies should make quarterly tax payments by the 25th day of the month following the quarter-end.
penalties and fines

If the accounting and tax requirements of the Russian Federation are not met, various penalties are foreseen, e.g.:

- If accounting requirements are not met (e.g. required forms are not prepared or specific transactions were not properly recorded), the penalty is between 10,000 – 30,000 RUB for the company and 5,000 to 10,000 RUB personally for the chief accountant and / or the General Director. The recommission of the administrative offense leads for the officials to a fine in the amount of 10,000 to 20,000 Rubles or the disqualification for a period from one to two years.
- Since July 2016, there is a new basis existing for blocking corporate bank accounts. If the taxpayer, who is obliged to provide reports in electronic form, did not provide the possibility for obtaining electronic documentation from the tax authorities through the respective electronic document interchange provider within 10 days, then his corporate bank account can be blocked. The blocking will be carried out within 10 days from the date when the tax authorities have stated the violation.
- If tax payments were not paid or only partially paid, a fine in the amount of 20% of the unpaid amount is due.
- If the return was not submitted in time, a fine in the amount of 5% per month on the unpaid tax amount is due (but not less and 1,000 RUB or more than 30% of the unpaid amount).
- If a company pays the tax late, it has to pay interest. The interest rate is 1/300 of the refinancing rate of the Central Bank of Russia (10%) for each overdue day.
- If the tax agent does not pay the tax, a fine in the amount of 20% of unpaid tax is due.
- If a company does not submit the tax return within a period of 10 days after it is due, the tax office is authorized to block the company’s bank accounts.
In order to have a cash-box, a company has to calculate and approve with the bank a certain cash-box limit. Calculations are made on the basis of one of two formulas (the company should choose the one more suitable for its activity). If, for any reason, a company withdraws an amount of money which exceeds the set limit (e.g. salary payments) and does not pay it back within three days, it has to return the money to the bank. For all cash transactions (salary payments, expense payments to employees etc.) a company has to prepare special documents (cash receipt voucher, cash disbursement voucher) and keep a formal cashbook in prescribed formats. Only persons employed by the company can get petty cash advances. Cash expenses incurred by the company’s employees should be supported by expense reports (its form could be defined by the company).

If a company has cash receipts from sales, it must use a cash register machine. This also applies to receipts from credit card sales. Receipts and disbursements cannot be netted. All receipts must be deposited into the bank account.

Petty cash payments between legal entities, as well as between a legal entity and an entrepreneur under one single contract, are limited to 100,000 RUB.

It is obligatory to make a full responsibility agreement with the employee who is dealing with the petty cash (cashier).
establishment of a company: tax aspects

Financing through shareholder loans
Similar to other countries, Russia has thin capitalization rules. These rules limit the amount of interest on shareholder loans for tax deductibility purposes. The calculation is somewhat complex, but an approximation however is that a loan amount cannot be more than three times the equity of the company. A foreign owned company in Russia cannot deduct interest paid on loans exceeding this limit. Independent from this, the interest rate has to reflect market conditions. In case a company does not meet the thin capitalization requirements at the end of the relevant reporting period, the interest payment is then considered as a dividend which means a tax rate of 15% on the interest paid has to be withheld. Some Double Taxation Treaties also allow a reduced rate.

Loss carry forward
In principle, any tax losses may be carried forward for up to 10 years. Since 2007 it is possible to offset the current profit completely with losses of previous years carried forward. However, the losses have to be supported by sufficient documentation.

Impact of ruble devaluation on net assets
The year 2014 was marked by high volatility of national currency to Euro and Dollar. This tendency can remain in 2015, but currently many foreign companies face the fact that devaluation has negatively reflected on financial statements and net assets. Why did this happen? Many subsidiaries handle import of goods and equipment to Russia, and very often have long installment of date for payment for such supply agreements. Also subsidiaries can receive funds as loans from a parent company. Usually such liabilities are in foreign currency and revalue in rubles on every reporting date. For comparison purposes the exchange rate of the Ruble was wobbled for the previous year the following way:
- 44 RUB / EUR as of December 31, 2013
- 68 RUB / EUR as of December 31, 2014
- 80 RUB / EUR as of December 31, 2015

The loss for revaluation of liabilities in foreign currency is reflected in profit and loss statement and influences the calculation of a company’s net assets.

VAT refund claims
If VAT paid through purchases and “received services” is higher than the VAT payable on revenues, tax authorities may conduct a three-month desk tax audit, after which this VAT (difference between input and output VAT) can generally be returned to the company’s bank account or offset against further VAT liability in future periods.

If the tax authorities refuse to refund the input VAT, and a suit is filed for the reimbursement, the tax payer usually wins. But it often requires legal procedures through three levels of jurisdiction before the tax authority proceeds with the payment.
Foreign currency transactions are all payments between residents (Russian legal entities) and non-residents (foreign companies, including their representative offices and branches in Russia), covering not only payments in foreign currency but also in Russian Rubles. Control over those transactions is performed by banks, customs bodies and special government institutions (e.g. Rosfinnadzor).

“Passport of deal”
A “passport of deal” is opened in the bank for each contract with all payments and cash receipt transactions exceeding the equivalent of 50,000 USD with non-residents. It is a comprehensive document with many forms. As supporting documents, copies of the related contract and the actual invoice have to be attached.

Besides the “passport of deal” other documents such as the Certificate of Currency Operations and the Certificate of Confirmation documents should be provided to the bank within a certain deadline – either 15 working days after the transaction or 15 working days after the end of the month when the transaction took place. Even if the transactions are not subject to “passport of deal” opening a submission of Certificates of Currency Operations is obligatory.

The Code of Administrative Offences of the Russian Federation set the responsibility for currency legislation violation for:
- Not following the order or deadlines of currency operations reporting
- Delay of revenues receipt or return of prepayment including failure to receive

One country – three currencies
The official currency in Russia is the Ruble. Within Russia and between Russian companies, all payments, in cash or by bank transfer, can only be performed in Rubles.

However, contracts in Russia may be concluded in other currencies (most often in US Dollars or in Euros). It is important, however, that the actual payment is made in Rubles. This practice regularly leads to exchange rate differences between the date the transaction is recorded and the date of payment, and this leads to additional accounting work.
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The Russian Labour Code provides a number of specific rules for personnel administration and salary determination. Some of the more typical examples are listed below:

- In addition to the customary documents such as labour contracts and “termination agreements”, a company has to issue internal orders on government-prescribed forms, signed by the General Director, whenever an employee is hired or when he / she leaves the company. The same applies for employee vacations.
- For each month, a timesheet has to be prepared with all calendar days and all employee names, stating individually all working, leave, and sickness days, etc. used.
- Each employee must have a so-called “labour book”. In this book, the employer has to enter the work period, the position occupied and the reasons for leaving the company. The employer has to keep a journal of all labour books in its possession.
- Vacation procedures are rather complicated as well. For the vacation period, the salary is calculated differently, using the average salary during the previous 12 months. This means that a salary increase or a bonus payment during the last 12 months before the vacation will have an influence on the salary during the vacation. Also, the salary has to be paid to the employee before he / she actually takes the vacation.
- The Labour Code defines that each employee must receive at least 28 calendar days of vacation. If someone assumes these are 4 weeks and therefore 20 working days, this is not quite right and may result in an inadvertent violation. If the vacation is broken up into parts, there may be some additional days. In principle, vacation entitlements can be carried forward into the following year.
- At the end of the year the employer has to prepare the leave schedule in which each employee’s preferable dates and duration of next year’s vacation stated.
- Overtime work that is paid in the first two hours is done so at one and a half times the base rate and for further hours, not less than twice the amount. Specific amounts of payment for overtime work can be determined by a collective agreement, local standard act or labour agreement.
  - Depending on the preferences of the employee, overtime work can be compensated by additional time off, but not less than the additional time worked.
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- In Russian labour legislation, working in a flexible time regime is foreseen. In such cases, the personnel administration & documentation as part of payroll accounting beginning, the end and length of the working day is defined by an agreement between the employer and the employee.

- The employer provides an employee with the same total number of work hours during corresponding periods (e.g. 40 hours within one week but not necessarily from Monday till Friday).

- The setup of such a regime must be fixed in the local standard act (internal labour rules) and / or in a labour agreement with the employee.

- As stated, irregular working hours are foreseen in the Russian labour legislation. It is a special work routine whereby some individual employees may work beyond the standard working hours, as ordered by the employer by necessity. The list of employees having irregular working hours is determined by a collective agreement, contract or the internal labour regulations of the organization. In this case, the employer is obliged to provide three additional vacation days per year as compensation for irregular working hours.

- Payments which are made fully or partly at the expense of the social insurance fund have to be confirmed by a number of specific documents, e.g. payment for time off due to illness can be made only if the employee arranges sick-leave on the period of absence.

- The labour inspectorate has the right to conduct a field audit in order to check compliance with labour law. This audit could be made if an employee files a complaint to the labour inspectorate about labour law violations. Penalties for such violations found by the labour inspectorate are ranged from 30,000 RUB to suspension of all company operations up to 90 days and disqualification of a company official up to 3 years.
This brochure is a summary and partly schematic overview of the rules and requirements provided by the legislation in Russia. It is for information purposes only and does not offer any legal advice. It is recommended to receive an individual consultation on the matter before making a transaction. Copying or distribution of this brochure in any form whatsoever is possible only after a prior approval of the copyright owner.