



ABC of Russian Business Law

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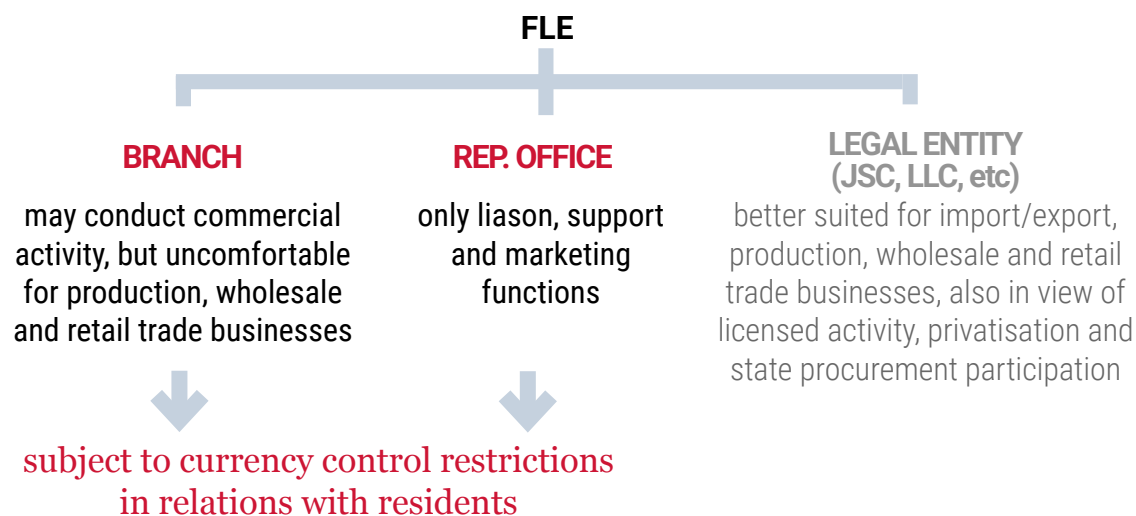
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≡ Types of Foreign Business Presence

Foreign companies may operate in Russia both via Russian daughter companies and via branches and representations.



Ideally, rep. offices may carry out only auxiliary and introductory functions, but practically they conduct commercial activity as well, and in this case are taxed in the same way as resident companies (with due account for the effective double taxation treaties).

Branches are established for effecting activity carried out by a foreign legal entity (its head office) outside Russia and liquidated by the decision of this entity. They perform all functions or part of them, including representation, on behalf of the founding head office, provided that this entity has been established and operates for commercial purposes and it bears direct proprietary liability for obligations assumed in relation to the activity in Russia.

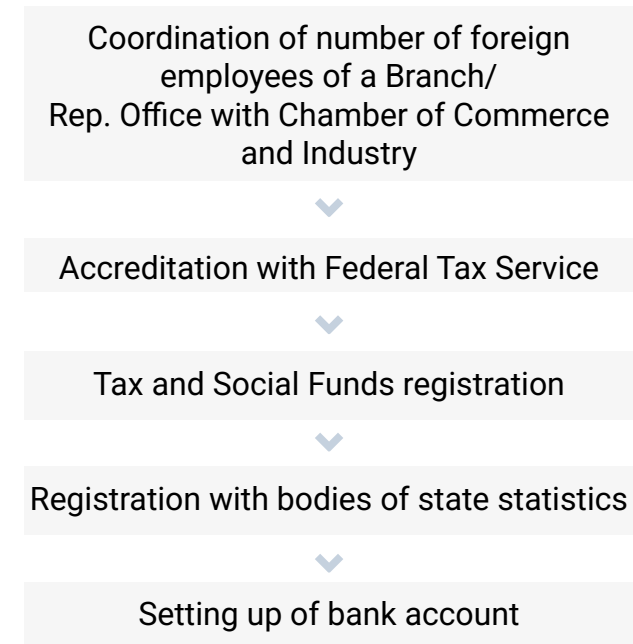
Branch/Rep. office registration formalities

For visa support, obtaining VAT exemption on the office space rental, etc. branches and representations of foreign legal entities should get accredited with the Federal Tax Service.

Application File

1. Application form
2. Charter, Articles of Association
3. Registration Certificate or Excerpts from Trade Register
4. Tax registration evidence from the home country
5. Decision on setting up of the Branch/Rep. Office in Russia
6. Internal regulations of the Branch/Rep. Office
7. Power of Attorney for the Head of the Branch/Rep. Office

Procedure



Registration Fee

State fee for registration of Rep. Office/Branch is equal to RUR 120.000.



LLC. Definition. Registration formalities

Definition

Limited Liability Company is a commercial organisation founded by one or several persons, with statutory capital divided into participatory shares.

“Participatory shares” are technically not shares (are not considered securities under the Russian securities law), thus LLC is a type of a company with least burdensome statutory obligations.

Responsibility of LLC

LLC bears liability for its debts with all property in its possession. LLC does not bear liability for its participants’ debts. LLC participants bear no responsibility on its liabilities.

If the company goes bankrupt through the fault of its participants or other persons able to determine its actions, these persons may bear subsidiary liability for LLC debts.

LLC law defines “other persons” as persons able due to contractual or other relationships with LLC to issue binding instructions or to determine its decisions in other way. This unclear provision of LLC law, not supported by a clear court practice, often encourages foreign investors to use offshore SPV in between the investor and Russian LLC.

LLC Participants

Up to 50 participants – legal entities and individuals, including foreign. State or municipal bodies may not participate in LLCs.

LLC may not have as its sole participant another Russian LLC or JSC consisting of a single person (“nesting dolls” are prohibited).

LLC Registration Formalities

LLC is registered and entered to the Unified State Register of Legal Entities by the territorial bodies of the Federal Tax Service.

Application File

1. Application form P11001 to be signed by all founders in front of notary of Federal Tax Service officer
2. Decision on setting up of LLC (minutes of founders’ meeting or decision of sole founder)
3. LLC Charter (the only statutory document)
4. Foundation Agreement (in case of multiple founders)
5. In case of foreign founder – Registration Certificate or Excerpts from Trade Register
6. Document confirming legal seat of LLC

Participants’ Agreement

Participants of a LLC can enter into contractual arrangement to regulate corporate governance of the LLC and the rights and liabilities of the participants (i.e. “shareholders” agreement). Such agreements may: regulate the exercise of voting rights; the sale of participatory shares at a price defined in the agreement and/or upon the occurrence of specific events (legal framework for share options); and to suspend the right to sell participatory shares until the occurrence of a specified event (a legal framework for a “lock in”).

Although there is no express requirement for the participant agreement to be governed by Russian law, Russian courts have held in other contexts that only Russian law can govern the internal affairs of a Russian company. It is also unclear whether the provisions of a participant agreement would prevail over contrary provisions in the charter of the LLC.

Statutory Capital. Participatory Shares

Statutory capital is set in Roubles and cannot be less than RUR 10,000.

Can be formed by money, securities, goods and IP rights. Other property rights, like leasehold, cannot form statutory capital. If non-monetary contribution’s par value exceeds RUR 20,000, the contribution should be evaluated by an independent appraiser.



LLC. Transfer of Shares. Management Bodies

Transfer of Participatory Shares

A participant is entitled to transfer its share to:

- one or several of the company's participants (consent of the company or of other participants is not required, unless otherwise stipulated by the Charter);
- third parties (unless prohibited by the charter).

Pre-emptive Right

In case it is allowable for participants to transfer their share to third parties, other participants have pre-emptive right to buy it:

- at the price and under other terms of purchase as offered to the third party;
- at the price pre-determined by the charter (as fixed amount or as formula based of net assets, net balance value, net profits etc.).

If stipulated by the Charter, the company also may enjoy pre-emptive right, if the participants do not exercise their right.

If neither the participants nor the company exercise the pre-emptive right within a month (unless longer period stipulated by the Charter), the participatory share may be sold to a third party at a price not lower of which the participants have been advised or not lower of the price pre-determined by the charter.

If a participatory share is sold with violation of the pre-emptive right, participant or LLC may appeal to a court of law within three months to have the buyer's rights transferred to him/it.

Transfer of participatory shares' transaction should be effected before notary public (with certain limited exceptions – when participatory share of leaving participant is redeemed by LLC, when “treasury” participatory share is distributed between participants and when “treasury” participatory share is sold to participants or third parties).

General Assembly

Supreme decision-making body of LLC. Each participant has a number of votes in proportion to his participatory share, unless otherwise stipulated by a charter. Thus, non-proportional voting is generally allowed.

Regular General Assembly

Regular General Assembly is convened by the company's executive body in terms established by the Charter, but not less than once a year. A regular General Assembly approves the results of the company's annual activity, therefore it is held not earlier than two months and not later than four months after the end of the financial year (equal to calendar year).

Extraordinary General Assembly

Extraordinary General Assembly is convened by the executive body:

- at its own initiative;
- at the request of the Board of Directors;
- at the request of the inspection commission (inspector);
- at the auditor's request;
- at the request of participants possessing in the aggregate no less than 10% of votes.

Board of Directors and Executive Body

Board of Directors (Supervisory Council)

Setting up Board of Directors (is not compulsory but may be stipulated by the LLC Charter).

Executive Body

Executive bodies report to the General Assembly and the Board of Directors.

Civil Code expressly allows several directors or other named sole executive bodies to be appointed in LLC to act jointly or each individually. Only a natural person may serve as sole executive body (except managing company).

≡ LLC. Large-Scale Transactions

Definition

A large-scale transaction is a transaction (including loan, credit, pledge or surety) dealing with acquisition or (possible) sale of property whose value is 25% and over of book value of LLC's assets as of the last reporting date.

The Charter may establish higher threshold or may provide that the approval is not necessary regardless the value of the transaction.

The value of property being sold is determined as its book value, while the value of the property being acquired – on the basis of ask price.

Approval of Large-Scale Transaction

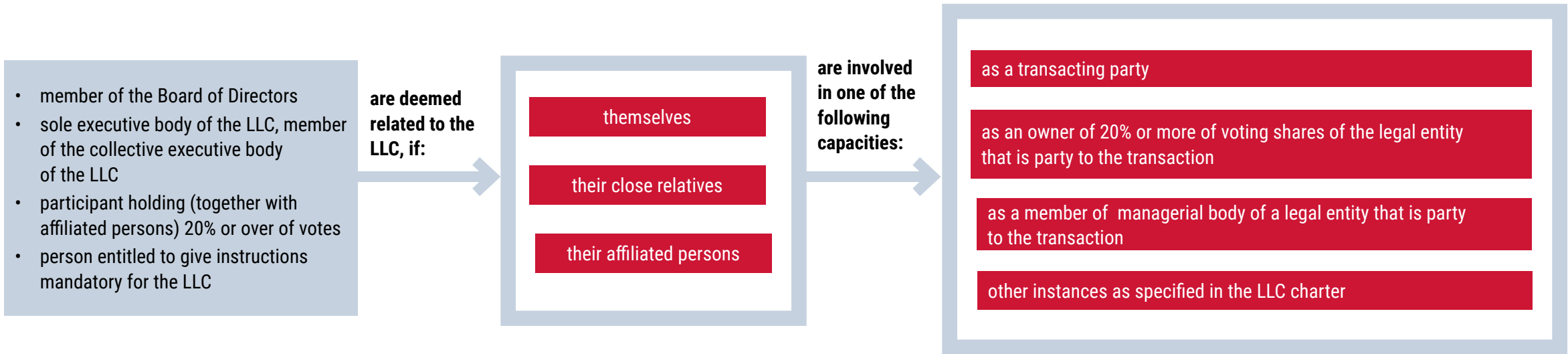
By default shall be taken by General Assembly. Approval of transactions valued from 25 to 50% of the company's assets may be delegated to the Board of Directors.

Exceptions

The following transactions do not require approval:

- transactions concluded in a regular course of LLC's business;
- transactions executed by LLC consisting of a single participant who is simultaneously the sole executive body;
- the acquisition or the redemption of participatory shares by LLC itself;
- transactions in the course of reorganisation.

≡ LLC. Related Party Transactions



Approval Procedure

Related party transaction shall be approved by the General Assembly prior to its execution. Advance approval of future transactions is also possible.

Approval may be commissioned by charter to the Board of Directors (if exists), except for transactions where value of assets exceeds 2% of whole assets.

If a related-party transaction is simultaneously qualified as a large-scale, the rules for the related-party transactions apply with one exception: if all participants are related parties in the transaction, the rules for large-scale transactions apply.

Exceptions

The following transactions do not require approval:

- transactions executed by LLC consisting of a single participant who is simultaneously the sole executive body of the company;
- transactions where all participants of the company are related parties;
- transaction is in exercise of pre-emptive rights by participants;
- the acquisition or the redemption of participatory shares by LLC itself;
- transactions in the course of reorganisation;
- transactions whose execution is obligatory for LLC under federal laws and other legal acts and where settlements are effected by fixed prices and tariffs.



M&A Control by Antimonopoly Authority

A number of transactions with shares, property and property rights are subject to antimonopoly control which is exercised by obtaining approval of the antimonopoly authority (Federal Antimonopoly Service - FAS).

Transactions Subject to Antimonopoly Control

Merger and Accession

Subject to control, if the worldwide value of the assets of participants (and their groups) exceeds RUR 7 Bln or revenue exceeds RUR 10 Bln.

Acquisition

Subject to control, if the worldwide value of the assets of the acquirer and the target (and their groups) exceeds RUR 7 Bln or revenue exceeds RUR 10 Bln, and simultaneously the value of assets of the target (and its group) exceeds RUR 400 Mln, with respect to the following transactions:

- acquisition of more than 25%, 50%, 75% of shares of JSC (¼, ½, ¾ of the statutory capital of LLC) of the target (*no approval or notification is required for "intermediary acquisitions", i.e. from 25% to 50%, from 50% to 75%, from 75% to 100%*);
- acquisition of more than 20% of the book value of target's assets;
- transactions resulting in acquisition of the rights to determine the terms of carrying out business activities/act as sole executive body;
- acquisition of more than 50% of shares of foreign company/rights to determine the terms of its business activity/act as sole executive body, provided that this foreign company has supplied over RUR 1 Bln. of goods to Russia within the last year.

Incorporation

Subject to control, if company's charter capital is paid up with shares and/or assets of another company and the new company obtains the rights specified above with respect to acquisition of such shares/assets/rights.

Ways of Getting Antimonopoly Approval

The party interested in controlled transaction may get prior approval or disclose groups of transaction' participants and then notify antimonopoly authority upon completion of transaction.

APPLICATION FOR PRIOR APPROVAL



Consent of antimonopoly authority:

- unconditional
- with an order on remedy of restrictive business practice

postponement of approval till conditions set by antimonopoly authority be fulfilled (9 months maximum)

denial if transaction violates antimonopoly regulations

SUBSEQUENT NOTIFICATION

1. Disclosure of the group(s) to antimonopoly authority (it may issue order on remedy of restrictive business practice)
2. Notification of antimonopoly authority upon transaction completion (it may issue order on remedy of restrictive business practice)

The interested party still may ask for prior approval



Tax System

Tax system is established by Tax Code. The tax system is administered by tax authority – Federal Tax Service.

Paid throughout Russia

FEDERAL TAXES

- VAT (20%/10% rates)*
- excises on gasoline and diesel fuel, motor oil, straight-run naphtha, alcoholic beverages, beer, tobacco articles and passenger cars
- Personal Income Tax (13%/15% rates for tax residents)*
- Corporate Profits Tax (20%)*
- Minerals Extraction Tax
- Water Tax
- Levies on Consumption of Natural and Biological Resources
- Stamp Duty

Set on federal level, introduced by regional laws

REGIONAL TAXES

- Corporate Property Tax (up to 2,2% of the cadastral or net book value of real estate and (in some regions) movable property*)
- Transport Tax
- Gambling Tax

Set on federal level, introduced by municipal authorities

LOCAL TAXES

- Personal Property Tax
- Land Tax
- Trade Levy

* these taxes may be replaced by one single tax under special tax regimes:

- simplified taxation system for small businesses;
- unified agricultural tax;
- unified tax on imputed income;
- patent system of taxation.



Transfer Pricing

Related Parties

Following parties are deemed to be interrelated:

- companies with direct or indirect ownership of more than 25% of capital;
- sister companies with common shareholder owning more than 25% of capital;
- companies with the same person acting as executive management body;
- close relatives, individuals subordinating to another individual as to his or her superior.

Court may declare companies or individuals as interrelated on other grounds.

Controlled Transactions

Cross-border:

- related party transactions above RUR 60 Mln per year;
- transactions in specific commodities quoted on exchanges (crude oil and petroleum products, ferrous and non-ferrous metals, chemical fertilizers, precious metals and precious stones) – above RUR 60 Mln per year;
- transactions with residents of “black-listed” offshore jurisdictions – above RUR 60 Mln per year.

Are exempt from transfer pricing control:

- transactions between Russian entities registered in the same region (Federation subject) that do not have any subdivisions in other regions within Russia or abroad (provided none of these companies has tax losses);
- transactions within consolidated group of taxpayers.

Symmetrical adjustment of the tax base

In case additional tax is assessed during TP audit for one of the parties under the transaction, symmetrical adjustment should be made for the other Russian contracting party in the form of a reduction in its tax base.

Self-adjustments

Self-correction of transfer prices is allowed, payment of late-payment interest fee is required.

Domestic:

Related party transactions if both conditions are met:

- the parties apply different CPT rates or different tax regimes (as well as calculate the mineral extraction tax as a percentage of tax base, or are exempt from CPT, or apply the investment tax deduction);
- annual revenue exceeds RUR 1 Bln.

Advance Pricing Agreements

APAs are available for taxpayers registered as “largest” (as Gazprom) only.

TP Methods

Similarly to the OECD Guidelines, Russian transfer pricing rules establish five transfer pricing methods:

- Comparable uncontrolled price (CUP);
- Resale-Minus;
- Cost Plus;
- Transactional Net Margin;
- Profit Split method.

The hierarchy in the application of methods is also similar to that of the OECD Guidelines. A combination of several methods can also be applied.

TP Documentation

Taxpayers are required to prepare and have available TP documentation on controlled transactions. There is no specific format for it, although, its complexity should be commensurate with the complexity of the transaction.

As Russia is not an OECD member country, taxpayers cannot directly refer to OECD TP Guidelines at preparation of documentation.

TP documentation shall be filed only at the request of the tax authorities. It can be requested not earlier than June 1 of the following year, filing deadline is 30 days from the request's date.

There is no penalty for not filing. At the same time, if non-compliance with TP rules is revealed during TP audit, the taxpayer who had filed the documentation is exempt from penalty of 40% of the underpaid tax.

TP reporting

TP report on controlled transactions shall be filed annually by May 20.

Administration

Conduction of TP tax audits is delegated to special team of Federal Tax Service. Local tax authorities do not participate.

≡ Controlled Foreign Companies

Definition

Controlled foreign company (CFC) is defined as foreign legal entity or foreign structure without legal personality (e.g. fund, partnership, trust) controlled by Russian legal entity or individual.

Participation Threshold

To fall under Russian CFC rules, Russian tax resident shall own the following participatory interest in a foreign entity/structure:

- over 25%, or
- over 10%, if the total participatory interest of Russian tax residents in such an entity is over 50%.

If participation threshold has not been met, but Russian tax resident exercises control over foreign entity with regard to profits distribution based on management agreement or other forms of control, it still can be considered as controlling party.

Controlling Parties' Obligations

Controlling parties shall:

- report participation in CFCs;
- include CFC undistributed profits into tax base of corporate profits tax or personal income tax.

Russian tax residents shall report participation in any foreign entities/structures, even not having CFC status.

Taxation of CFC income

Taxation Threshold

CFC's income is taxed if it exceeds RUR 10 Mln.

Calculation of taxable income

Two methods are used, depending upon CFC's tax residency:

- If CFC is a tax resident of jurisdiction that has a tax treaty with Russia and exchanges tax information with Russia, and if CFC's financial statements are subject to audit, its income is calculated based on local financial statements with certain adjustment set by Russian Tax Code.
- If not, taxable income is calculated in accordance with Russian tax regulations.

A CFC's taxable profits may be reduced by:

- dividends paid out, provided they had been taxed;
- losses incurred by a CFC and carried forward.

CFC Exemptions

Income of following CFCs is not subject to Russian taxation:

- companies incorporated in Eurasian Economic Union;
- companies resident in jurisdictions that have a tax treaty with Russia and exchange tax information with Russia, if they are taxed at rate of at least 75% of Russian blended tax rate;
- non-profit foreign entities that do not distribute profits;
- active companies (passive income is less than 20%) or active holding/subholding companies (passive income is not over 5%);
- some other CFCs

≡ Taxation of Foreign Presences

FLEs Doing Business through Permanent Establishment

If business activity of FLE creates PE status in Russia, it is subject to Russian taxation similarly with Russian companies with the following nuances:

- FLE pays Corporate Profits Tax quarterly without monthly advances;
- FLE may allocate income and expenses borne by head office to its Russian PE;
- FLEs conducting preparatory and auxiliary activity in favour of third party assess Corporate Profits Tax base as 20% of expenses.

Recognition of FLE as Russian Tax Resident

Even if FLE does not conduct any business in Russia, Russian tax authorities may recognise FLE as Russian tax resident based on the place of effective management and control test. The grounds for such recognition may be:

- location of executive body in Russia;
- carrying out of management activities from Russia;
- keeping of accounting (including management accounting) in Russia;
- records-keeping in Russia;
- conducting of operational personnel administration from Russia.

Also, FLE may become Russian tax resident voluntarily.

Taxation of Russian-sourced Income Not Related to Business Activity

Proceeds from sale

20%

Proceeds from sale of:

- real estate located in the RF
- shares (participatory shares) of Russian organisations whose assets for more than 50% consist of real estate located in the RF
- financial derivatives based on shares (participatory shares) mentioned above.

Expenses may be deducted if FLE, the recipient of income, submits to its tax agent by the day of payment of income the documents proving the expenses incurred by FLE.

Interest, Non-Dividend Distribution Income, Royalties, Lease Income

20%

- interest on debt liabilities of Russian organisations, except for state and municipal securities
- Non-dividend income gained by a FLE as a result of distribution of profit or assets of any entity located in the RF, including income in the form of liquidation cost;
- royalties;
- Income from the lease and sub-lease of assets used in the RF, including income from leasing transactions
- Penalties and fines received from Russian entities for breach of contractual obligations
- Other similar income.

Dividend Income

15%

- Dividends paid to FLE – a shareholder (participant) of a Russian organisation

Freight Income

10%

- Income from freight of sea and air vessels and (or) transport vehicles and containers used in international carriage
- Income from international carriage, including demurrage and other payments for carriage

≡ CPT. Taxpayers. Tax Rates

Taxpayers



Foreign legal entities not conducting activity in Russia may also become subject to CPT on worldwide income, being recognised in certain cases (see previous page) as Russian tax residents.

CPT is not levied on entities applying special tax regimes.

Group Consolidation

Consolidated CPT reporting is available only for large Russian corporate groups with group sales over RUR 100 billion. Registered groups include Rosneft, Gazprom, Likoil, Severstal and Novatek.

Taxation of Controlled Foreign Companies income

The retained earnings of a CFC that is controlled by a Russian tax resident entity are subject to CPT.

Tax Rates

General rate

The maximum tax rate for all types of income (except dividends) is 20%:

- Federal budget – 3%;
- Regional budget – from 12,5% to 17%, by decision of regional authorities.

Dividend income:

0% – dividends received by Russian organisations qualifying for participation exemption (Russian organisation must hold participation of 50% for at least 365 days; foreign investee must not be a tax resident of black-listed jurisdiction);

13% – for dividends received by non-qualifying Russian organisations from Russian and foreign sources (except for black-listed jurisdictions which are taxed at 20%).

Specific tax rates and tax incentives

Agricultural manufacturers, legal entities engaged in educational and (or) medical activity enjoy 0% tax rate.

CPT incentives are envisaged for:

- participants of Skolkovo project;
- participants of regional investment projects;
- residents of special economic zones, advanced development zones, free port Vladivostok.

Withholding Tax Rates

- Dividends: 15% – dividends payable by Russian organisations to FLEs and individuals.
- Passive income of FLEs:
 - interest, royalties, income from leasing and rental operations: 20%
 - freight income: 10%.

WHT rates may be reduced according to Double Taxation Treaties (tax residency test and ultimate beneficial ownership test are applied).

Participation Exemption

Capital gains from the sale of shares and participation shares of Russian companies held for more than five years is subject to 0 per cent tax. Participation exemption also applies to listed bonds of Russian companies and listed investment units of high-technology sector.

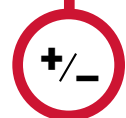


CPT. Tax Base. Tax Accounting. Loss Carried Forward. Due Dates

Tax Base Composition

SALES OPERATIONS

Profit (loss) from sales = Profit (loss) from sales of self-produced goods (work, services), property and proprietary rights \pm Profit (loss) from sale of merchandise $+$ Profit from sale of fixed assets (for recognition of losses see page "CPT. Depreciation")



Profit (loss) from sales of securities is not included into the general tax base but creates separate tax base

NON-SALES OPERATIONS

Profit (loss) from non-sales operations Profit (loss) from each type of these non-sales operations is not included into the general tax base but creates separate tax base

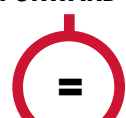


Profit (loss) from operations with fixed-term market instruments

- Shareholding income
 - Interest on state and municipal securities
- These types of income are taxed at special rates

LOSSES CARRIED FORWARD

Losses under each type of these activities are carried forward only within the respective tax base (on operations with securities, etc)



Losses carried forward under sales of securities

Losses carried forward under operations with fixed-term market instruments



Tax base for operations with securities

Tax base for operations with fixed-term market instruments

Tax Accounting

Income and expenses are assessed on an accrual basis, except for "small" taxpayers that may use cash basis.

The Tax Code stipulates a special system of accounting for tax on profit purposes – the system of tax accounting, which is different from the Russian Accounting Rules.

Reconciliation between financial accounting and taxable profits is not performed. However, tax accounting is based on the same primary documents as used for financial accounting.

Taxpayers decide themselves on the procedure of keeping tax accounting and describe that procedure in their "tax accounting policy" – a special document approved by the head of the organisation. Tax bodies may not introduce any mandatory formats for tax accounting documents.

Inventory Valuation

Taxpayers engaged in wholesale and retail trade and applying accrual method may deduct the cost of goods sold. The method for its valuation (FIFO, average cost, unit cost) must be fixed in the Tax Accounting Policy for at least 2 years.

Loss Carried Forward

A taxpayer has the right to carry a loss forward for an unlimited period, but not exceeding the cap of 50% of taxable profits. Carry-back of losses is not allowed.

Losses incurred in several years are utilised under FIFO principle.

Tax Period. Due Dates

PT is payable on a year to date basis. Within a year the advance system is applied: taxpayers may choose to pay tax monthly, on the basis of actual profits, or quarterly with monthly instalments calculated on the basis of the profits of the previous quarter. "Small" taxpayers and foreign legal entities pay CPT quarterly on the basis of actual profits.

Quarterly tax returns should be filed by the 28th day of the month next to the reporting quarter. The annual tax return should be filed by March 28.

≡ CPT. Interest Deduction. Thin Capitalisation

Interest Deduction

Russian interest deductibility rules are harmonised with transfer pricing regulations.

Interest on any borrowing (loans and other debts) from non-related party is fully deductible.

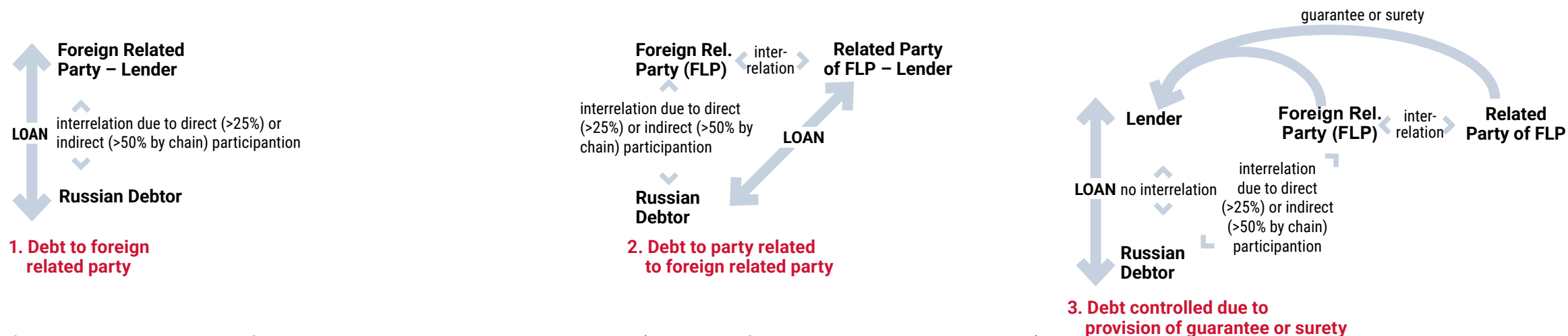
If the borrowing appeared to be controlled transaction for TP purposes, the safe harbour for interest deduction is as in the table (right).

If the interest rate is under the safe harbour threshold, it is not necessary to confirm its “market” level for TP purposes. If not, the taxpayer can give proof of its level by TP documentation.

RUR	125% of Central Bank key rate (20% as of March 2022)
EUR, CNY, GBP	EURIBOR, SHIBOR, LIBOR accordingly plus 7 p.p.
CHF, JPY	LIBOR plus 5 p.p.
Other:	LIBOR in USD+7 p.p.

Thin Capitalisation

Deductibility of interest charged on “controlled foreign debt” may be limited in three cases:



If the outstanding amount of controlled debt exceeds more than 3 times (12.5 times for banks and leasing companies) the net equity of the Russian debtor, the deductible interest is limited with regard to capitalisation coefficient. The difference between accrued interest and deductible limit is treated as dividends subject to withholding tax. If net assets of Russian debtor are negative, the whole amount of interest accrued on controlled debt is subject to tax.



CPT. Depreciation

Depreciated Assets

Property, both tangible and intangible, capital investments into leasehold improvements that has:

- useful life of at least 12 months
- historical cost of more than RUR 100 000.

Depreciation Groups and Depreciation Method

Fixed Assets

Taxpayers shall pool assets into 10 groups according to classification set by RF Government, depending upon their useful life.

Intangible Assets

The useful life of an intangible asset shall be determined out of its validity period (for patents) or utilisation period set by agreement. If it is impossible to determine utilisation period, this term is fixed at 10 years.

Group	Useful life period
1	from 1 to 2 years inclusive
2	from 2 to 3 years inclusive
3	from 3 to 5 years inclusive
4	from 5 to 7 years inclusive
5	from 7 to 10 years inclusive
6	from 10 to 15 years inclusive
7	from 15 to 20 years inclusive
8	from 20 to 25 years inclusive
9	from 25 to 30 years inclusive
10	over 30 years

Taxpayer may choose between straight-line and non-linear (declining balance) methods



Non-linear method
(depreciation is accrued for the whole group)



Straight-line method
(depreciation is accrued for each asset separately)

Only straight-line method is applicable to buildings, transmission devices and intangible assets of groups 8-10, but non-linear method is available for other types of assets from these groups



One-time Depreciation Allowance

Increase of Depreciation Rates

Increasing coefficient up to 2 may be used for:

- fixed assets working in aggressive regime and/or on multi-shift basis*, acquired before 01.01.2014;
- own (not leased) fixed assets of the residents of special economic zones;
- fixed assets of agricultural organisations of "industrial" type;
- energy-efficient fixed assets according to the list approved by RF Government.

Increasing coefficient up to 3 may be used for:

- leased fixed assets under financial leasing*;
- fixed assets used only for scientific-technical activities.

* Are not applied to assets of groups 1 – 3 depreciated by the non-linear method

Gains and Losses on Property Disposal

If the depreciated assets' net book value and expenses related to sale exceeds the sales proceeds, the difference between these two amounts is accounted as the taxpayer's loss. The loss is included into other expenses evenly within the period determined as the difference between the assets' useful life and the period assets were in operation before the sale.

Alternative Investment Tax Deduction

If this option is adopted by region authorities, taxpayers may reduce corporate profits tax due on expenditures on acquisition, erection, reconstruction, modernization, refitting, and technical upgrade of fixed assets of thrrd to seven depreciation groups. This investment tax deduction reduces not the tax base, but the amount of corporate profit tax. Obviously, the taxpayer cannot depreciate such fixed assets.



CPT. Expenses subject to Statutory Limits. Non-Deductible Expenses

Individual types of expenses are deducted from taxable income only within certain limits set by the Tax Code

Advertising Expenses

Advertising expenses mainly can be deducted in full, while deduction of expenses on acquisition (manufacturing) of prizes presented in the course of mass promotional campaigns and on other types of advertisement is limited to the amount of **up to 1% of taxpayer's revenue**.

Representation Expenses

Representation expenses can be deducted within a limit of **up to 4% of payroll expenses**. Expenses on entertainment and medical treatment are not deductible.

Voluntary Insurance of Employees

Type of insurance	Limits
<ul style="list-style-type: none"> • Voluntary life insurance • Voluntary pension insurance • Voluntary pension security at non-state pension fund • Additional contributions made by employer to the accumulative part of labour pension of the employee 	Sum total of these premiums (contributions) is deductible within a limit of 12% of payroll expenses
Voluntary medical insurance: not less than 1 year contract term	Employer's premiums are deductible within a limit of 6% of payroll expenses
Voluntary insurance against incidents: may cover injury or death (not only at workplace)	RUR 15,000 per insured employee per year, but not above 3% of payroll expenses (together with premiums on insurance covering employees temporary disability for the first two days of their disability)

Bad Debts Provision

Taxpayers may create deductible bad debts provisions, not exceeding ten per cent of revenues of previous or current year, whichever is greater.

Doubtful debt default for:	Provision amount
over 90 calendar days	Full amount of debt
45 – 90 calendar days	50% of the amount of debt
up to 45 calendar days	None

Provisions on unpaid interest are not created (except for banks and insurance organisations).

≡ VAT. Taxpayers. VAT Registration. Tax Period. Due Dates

VAT model in Russia resembles European model, although significant differences exist.

VAT is levied on supply of most goods, works and services on the Russian territory as well as on the imported goods. Exported goods are taxed at zero rate, which allows exporters to recover VAT paid for supplies.

The taxpayers are Russian and foreign legal entities and individual entrepreneurs, as well as importers. "Small" entities may enjoy VAT relief.

VAT rates are as follows:

- 20% – basic rate;
- 10% – a number of foodstuffs, goods for children, medicines, books and periodicals;
- 0% – exported goods and related works (services).

Output VAT is assessed on an accrual basis. Input VAT is recoverable on accrual basis also. There are additional requirements for input VAT recovery: supplies must be actually entered into books and the taxpayer must obtain VAT-invoice (document accompanying each VATable operation)

If a supplier is a foreign entity not registered in Russia for tax purposes, and the supply is subject to VAT, the tax shall be withheld by its Russian counterparty (tax agent) on a reverse charge basis.

VAT Registration

There is no separate VAT registration in Russia. When Russian and foreign companies register for tax purposes, they register simultaneously for all taxes including VAT.

Tax Period. Due Dates

Tax period for VAT is a calendar quarter, so VAT is calculated on a quarterly basis. Electronic VAT return should be submitted by 25th day of the following month.

The tax should be remitted in three equal instalments by 25th day of each of the 3 consecutive months following the reporting quarter.

Due Dates for Tax Agents

In case supply is deemed to be conducted on the territory of the RF by a foreign seller not registered in Russia, VAT withheld is remitted to authorities by tax agent simultaneously with the payment to the foreign supplier.

The bank may not accept from the tax agent an order for payment in favour of the foreign supplier unless the tax agent submits together therewith an order for remittance of VAT to authorities.

≡ VAT. Taxable Supplies. Place of Supply

TAXABLE SUPPLIES

VAT is charged on supply of goods, work and services in the RF including their free provision.

VAT is also assessed on:

- Self-supply of goods (works, services) for organisation's internal purposes, if related expenses are non-deductible for profit tax purposes, either directly or through depreciation;
- Self-supplied capital construction;
- Goods imported to Russia.

Place of Supply of Works (Services)

Works and services are generally deemed to be supplied in Russia if place of business of supplier is located in Russia, unless provided otherwise by the following special rules:

Type of services	Russia is deemed to be the place of supply if:
<ul style="list-style-type: none">• Work (services) related to immovable property, in particular: construction, construction-and-erection, repair work, lease/rent of immovables• Works (services) related to movable property	Property is located in Russia
Cultural, sports, arts, educational, recreation or tourism services	Services are rendered in Russia
<ul style="list-style-type: none">• Transfer of ownership or assignment of patents, licences, copyrights or trademarks• Services on development of computer programs and databases, their adaptation and modification• Lease/rent of movable property (except for overland motor vehicles)• Consulting, legal advice, accounting, engineering, advertising, marketing services, information processing services, R&D services• Services on personnel secondment – in case personnel work at the place of business of purchaser of services	<p>Purchaser of work (services) has a place of business in Russia</p> <p>The purchaser's place of business is deemed to be in Russia, if an organisation or individual entrepreneur proves its presence in Russia by appropriate registration with state bodies; otherwise – by the organisation's address stated in its statutory documents or the actual location of its managerial body (permanent executive body or permanent representation) or by the Russian residential address of a natural person</p>

≡ Tax Base Under Supply of Goods (Work, Services)



The tax base is the value of goods (work, services) calculated on the basis of established sales prices (determined in accordance with transfer pricing rules), with excise tax included but VAT excluded.

Foreign currency proceeds are converted into Roubles at the CBR rate on the date when goods (work, services) were supplied.

Increase of VAT Tax Base

Included into the tax base (if the main supply is VAT exempt, no VAT is charged on these amounts):

- amounts received as payment for goods (work, services) in the form of **financial aid** or other amounts related to payment;
- **interest (discount) on bonds and promissory notes** (bills of exchange) received as payment for goods;
- **interest on commercial credit** in part exceeding CBR refinancing rate;
- **insurance payments** received by the supplier under insurance contracts covering risk of non-performance of contract obligations by the counterparty of the insured.

VAT on these amounts is assessed using apportionment rates (20/120 and 10/110).

Supply Recognition Date

Supply recognition date is the earliest date of:

- **day of shipment.** In case goods are not shipped or transported, but the title to these goods is transferred, such a transfer is assumed to be a shipment;
- **day of receipt of payment** (partial payment) against future shipment.

Corresponding events (shipment and receipt of payment) triggers liability to accrue VAT. If the supply is recognised at the payment date, at the shipment date the supply shall be recognised as well.

Advance Payments

Under general rule advance payments (partial payments) are VATable. They are not included into the tax base under supply of:

- zero-rated goods;
- VAT-exempt goods;
- certain goods if their production cycle is over 6 months. The list of such goods and the procedure of confirmation of the receipt of advance payments are approved by the RF Government.

Special Cases

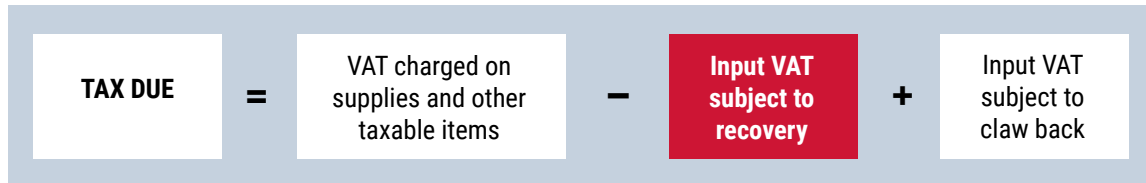
There is a number of special cases for calculation of VAT tax base:

- commission trade;
- cession of claims (factoring);
- disposal of property with "capitalised" VAT;
- provision of goods (work, services) free of charge;
- rent of state-owned property;
- sale of enterprise as a whole.



Input VAT Recovery and Claw Back

Input VAT Recovery Requirements



Input VAT paid to a supplier is subject to recovery provided:

- the respective supplies are intended for wholly taxable operations;
- the respective supplies have been entered into books;
- the taxpayer has the VAT-invoice on supplies with a separately itemised amount of VAT.

Input VAT related to advances (partial payments) against future shipment is subject to recovery by purchaser provided:

- the purchaser has the VAT-invoice of the seller, issued by the latter at the moment of the receipt of advance (partial payment);
- the sale-and-purchase contract stipulates settlements by advance (partial payment);
- the purchaser has documents confirming transfer of advance (partial payment).

Capitalisation of Input VAT

In specific cases “input” VAT is capitalised (included into the cost of purchased goods, works or services (including fixed and intangible assets). VAT amount is capitalised:

- if goods (work, services) are acquired or imported for:
 - manufacturing or/and sale of goods (works, services) exempt from VAT;
 - self-supply of goods (work, services) when such an operation is exempt from VAT;
 - manufacturing or/and sale of goods (work, services) supplied outside the RF;
 - transfer of goods (work, services) not recognised as supply and therefore exempt from VAT;
- if goods (work, services) are acquired or imported by non-taxpayers or taxpayers enjoying VAT relief.

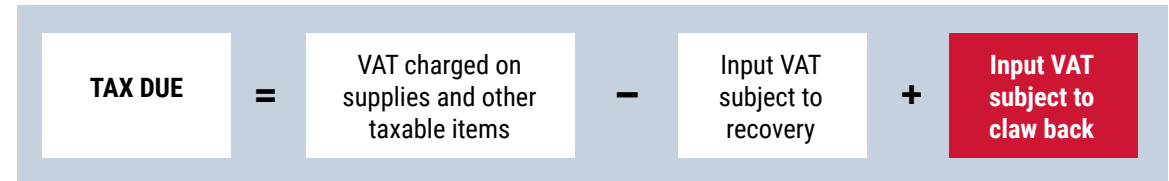
Taxpayers must book separately input VAT on purchased goods (work, services) used in taxable and tax-exempt operations. Taxpayers who do not keep separate accounting as required, can neither recover input VAT, nor capitalise it, i.e. treat it as profit tax deductible expense.

Special Case

In case purchased goods are used for manufacturing or/and supply of both taxable and VAT-exempt goods, input VAT is recovered or capitalised pro rata the share of the cost of taxable goods in aggregate volume of the taxpayer’s sales in a given tax period.

If the percentage of aggregate expenses on the production and sale of VAT-exempt goods (work, services) in a given tax period **is not over 5%** of the sum total of production costs, the taxpayer may recover input VAT in full.

Input VAT Claw Back



Earlier recovered input VAT is subject to claw back (is added to the tax due) in the following cases:

- contribution of property, intangible assets or property rights in the charter capital of other companies/partnerships. The recipient company/partnership may claim this amount for recovery. In case of contribution of fixed/intangible assets, the net book value is used for calculation of VAT subject to claw back;
- start of use of property, intangible assets or property rights for non-taxable operations or operations with place of supply outside Russia. Special rules are applied for VAT on capital construction and real estate used for such operations: the claw back period is extended for 10 years, no claw back requirement is applied to fully depreciated fixed assets and fixed assets over 15 years of use;
- entering into books of goods paid in advance. VAT on advance (partial payment) earlier recovered by purchaser is subject to claw back after goods are received and entered into books or after return of the advance to the purchaser;
- obtaining of the tax relief for “small” taxpayers or loss of the right for tax relief;
- transfer to the simplified system of taxation or to the unified tax on imputed income.



VAT Invoices. VAT Refund/Offset Procedure

VAT-Invoices, Purchases and Sales Ledgers

All VAT payers must maintain VAT invoicing and accounting according to special rules, i.e.:

- issue VAT invoices;
- keep journals of VAT invoices received and issued;
- keep sales and purchase ledgers.

With respect to retail trading, VAT invoicing rules are regarded to be observed if the seller issues to the purchaser a cash receipt or another standard document.

Forms of respective documents and documents flow procedures are established by RF Government. VAT invoices must be issued in Russian and must bear the original signatures of both the head of the company and the company's chief accountant. Electronic invoicing is permitted, upon mutual consent of the parties.

VAT-Invoice

A VAT-invoice is the main document for input VAT recovery. A VAT-invoice is to be issued within 5 days after goods are shipped (work performed, services rendered, property rights transferred) or advance (partial) payment is received.

With regard to supply of VAT-exempt goods (works, services) or operations of persons enjoying VAT relief, a VAT-invoice is issued with no tax amount itemised and stamped "VAT-free". Otherwise, in case VAT is itemised by mistake, the issuer of invoice should remit the indicated VAT amount to the budget.

For payments in foreign currency, a VAT-invoice may also be issued in foreign currency.

VAT Refund/Offset Procedure

Any excess of input VAT over output VAT should be refunded to the taxpayer from the budget. VAT refunds should only be made after the tax body has conducted a desk audit and confirm the legitimacy of the input VAT claimed for refund. If no violations are found in the course of desk tax audit (which lasts 3 month after filing VAT return), negative VAT difference should either be offset against the taxpayer's current VAT and other federal tax liabilities or refunded in cash after the taxpayer has submitted a written application.

Accelerated VAT Refund

The following categories of taxpayer may apply for an accelerated VAT refund procedure, i.e. before completion of 3 months desk tax audit:

- taxpayers who serve an irrevocable and non-transferable bank guarantee from a bank approved by the Ministry of Finance;
- taxpayers whose remitted amount of VAT, excise duties, profit tax and mineral extraction tax for the 3 previous calendar years is not less than RUR 10 billion and the entity was incorporated at least 3 years prior to the date the refund application is made.

The period for obtaining a VAT refund has been reduced to 11 working days starting from the day of filing the application with the tax body. Desk tax audit may still be conducted.

≡ VAT on Cross-Border Electronic Services

Non-resident providers of e-services shall become tax registered in Russia and charge VAT on B2C and B2B supplies.

Definition of E-Services

- online software licensing/sale and automated support;
- online advertising services;
- trading sites services;
- provision of a presence on the internet;
- online data storage and processing;
- online provision of computing capacity;
- webhosting and domain-name related services;
- administration of online systems and sites;
- data search services;
- subscriptions to e-books and other content;
- potential clients search services;
- internet search services;
- online statistics services.

Excluded Services

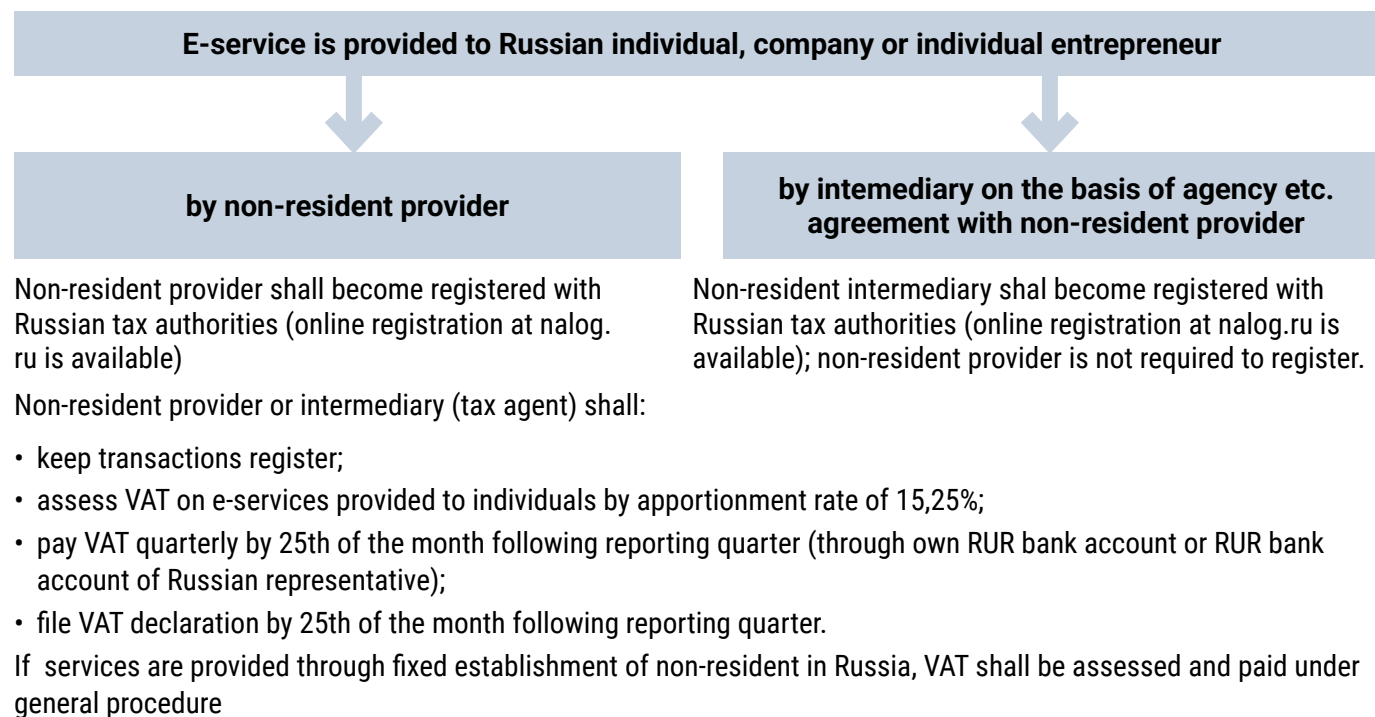
- internet access services;
- sale of goods (work, services) by online orders, if delivered offline;
- software and databases licensing/sale if delivered on physical storage media;
- consulting services provided via email.

Identification of Customer's Residency

To identify that the customer - individual resides in Russia and therefore Russian VAT shall be assessed, the provider may use either of:

- address of the customer indicated by him;
- IP address of the device used to access the service;
- International dialling code;
- the bank or other payment operator is registered in Russia.

VAT Registration/Payment Procedure



≡ PIT. Tax Rates. Tax Base.

Tax Rates

Residents

PIT for Russian tax residents (physically residing in Russia for over 183 days per 12 consecutive months) is progressive tax with rates:

13%

income not over 5 million rubles per year. Regardless income size, this rate is also applied to:

- income from sale of property and gifts (except for securities);
- insurance payouts and non-state pension payouts.

15%

income over 5 million rubles per year.

35%

- income in the form of prizes and winnings;
- interest on bank deposits exceeding 2/3 of CBR refinancing rate + 5% (9% in foreign currency);
- income deemed to be received from low-interest loans (except mortgages).

Non-Residents

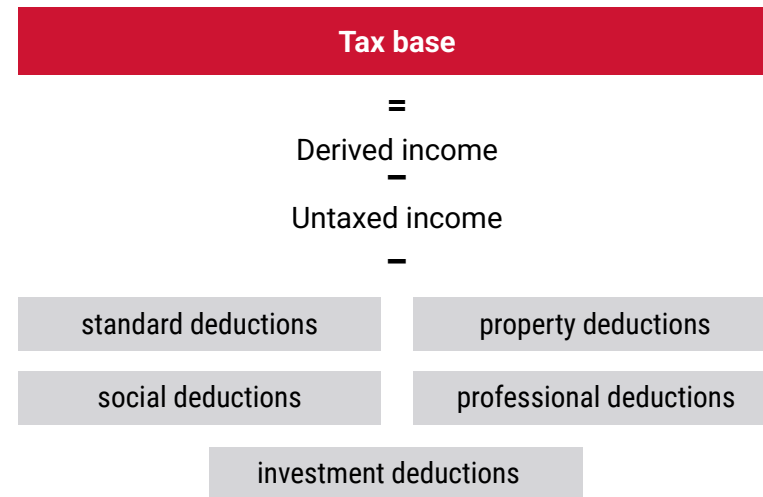
PIT for Russian tax residents (physically residing in Russia for over 183 days per 12 consecutive months) is progressive tax with rates:

30%

Reduced tax rate of 13% is envisaged for “highly qualified professionals” and non-residents not subject to the Russian visa regime, employed by individuals for personal and household services.

All employers (including rep. offices and branches of foreign companies) are to withhold personal income tax from individuals’ wages and salaries. Tax return is to be filed only by individual entrepreneurs and persons receiving income that has not been taxed at source.

Tax Base



Difference between aggregate amount of tax deductions and aggregate income in a given tax period may not be carried forward (except for specific cases, in particular – property deductions)



PIT. Deductions

Deductions

Tax deductions are available for tax residents only.

Standard Deductions

Children's deductions are made by one of employers - tax agents upon decision of the taxpayer, every month until taxpayer's annual income exceeds RUR 350,000:

- RUR 1,400 per 1st and 2d child;
- RUR 3,000 per 3d and every next child;
- RUR 3,000 per disabled child;
RUR 3,000 for veterans, victims of Chernobyl and some other;
- RUR 500 for disabled and some other.

Social Deductions

- Deduction for the education of a taxpayer (up to RUR 120,000 in aggregate with medical and pension deductions) and taxpayer's children (up to RUR 50,000)
- Deduction for medical treatment:
 - not over RUR 120,000 in aggregate with educational and pension deductions for medical treatment and pharmaceuticals on the lists of the Government
 - full amount of expenditure incurred for expensive medical treatment and pharmaceuticals
- Pension deduction for non-state pension security, voluntary pension insurance payments and cumulative part of labor pension (up to RUR 120,000 in aggregate with educational and medical deductions).
- Charity deductions to the amount of made contributions (but not over 25% of aggregate income taxed at rate of 13%).

Social deductions, except "pension" part, are granted when a taxpayer files his/her tax return. "Pension" part of deduction may be granted by the employer before the end of the year.

Property Deductions

Income from sale of property

- Sums received from sale of residential houses, apartments, country houses and land plots, including sale of a share in statutory capital of companies in his/her ownership:
 - for less than five years – up to RUR 1 mln.
 - for five years and more – within the sale price

- Sums received from sale of other property in his/her ownership:
 - for less than five years – up to RUR 250,000
 - for five years and more – within the sale price

Instead of a deduction on sold property a taxpayer may choose to deduct expenditures related to such a sale.

Expenses for construction or purchase of residential housing (Housing allowance)

Actual expenses but not more than RUR 2 mln. spent for new construction or purchase of residential houses, apartments or shares in them located in Russia. Housing allowance may be granted for more than one house within the limit of RUR 2 mln.

Repayment of mortgage interest

Repayment of mortgage interest under loans (credits) received by a taxpayer from Russian companies and banks and actually spent for new construction or purchase of residential houses, apartments or shares in them located in Russia, within the limit of RUR 3 mln.

Professional Deductions

Persons performing work or rendering services under civil law contracts are entitled to a deduction to the amount of documentary proved related expenditures (including taxes).

Individual entrepreneurs, private notaries and other persons rendering paid private services get the deduction to the amount of documented expenditures. The list of deductible expenditures is the same as the one for tax on profit. In case a taxpayer fails to prove his(her) expenditures, the deduction amounts to 20% of income derived from entrepreneurial activity.

For income received under licensing and copyright contracts or from inventions or industrial models the deduction amounts to expenditures proved by due documents. Otherwise, the deduction is granted to amounts set by the Tax Code.

Persons entitled for the deductions should submit applications in writing either to their tax agents or to the tax body together with the tax returns.

Investment Deductions

- Sums received from the sale of listed securities held for more than three years in the amount of $\text{RUR } 3 \text{ Mln} \times \text{Number of Holding Years}$;
- Moneys remitted by an individual to his personal investment account, up to RUR 400,000;
- The full amount of income from operations through individual's personal investment account, after three years of holding such account. This deduction cannot be applied if the taxpayer has claimed the previous one at least once within the term of holding the account.

≡ PIT. Untaxed Income. Tax Return and Due Dates

Untaxed Income

- Compensation payments to employees (e.g., compensation of business trip expenses) – within statutory limits
- Welfare assistance in the form of:
 - payment to employees, including retired employees (up to RUR 4,000)
 - funeral expenses compensation related to death of employee of employee's family member
 - sanatorium vouchers (except for tourist vouchers) or medical treatment paid by employer in full or in part from after-tax profit
 - compensation for expenses on pharmaceuticals incurred by employees, including employees' family members, retired employees and disabled (up to RUR 4,000 per person)
- Insurance premiums (fees) paid by employer for their employees under:
 - compulsory insurance
 - voluntary life/health insurance stipulating other than monetary indemnity for life/health hazard (within statutory limits)
 - voluntary pension insurance (within statutory limits)
- Bank deposit interest in the part not exceeding:
 - CBR refinancing rate + 5% for Rouble deposits
 - 9% for deposits in foreign currency
- Prizes and winnings (up to RUR 4,000)
- Number of other types of income

Tax Return and Due Dates

Tax return is filed by:

- individual entrepreneurs;
- other persons rendering private paid services;
- persons receiving income that is taxed according to special rules:
 - remuneration received from natural persons other than tax agents;
 - proceeds received from sale of property;
 - income of Russian tax residents derived outside Russia;
 - other income if the tax on it has not been withheld by tax agents.

Other taxpayers may file their tax returns in order to receive tax deductions.

Tax return filing day is not later than April, 30 of the year following the reporting tax year.



Labour Law Scope. Terms of Labour Agreement

Labour legislation applies to:

- all employers (legal entities or individuals) irrespective of their organisational and legal form and form of ownership;
- relations under civil law contracts which are recognised by court as regulating an employer-employee relationship;
- labour relations established in the RF between foreign citizens, stateless persons, organisations founded by such persons or with their participation, between employees in international organisations and foreign legal entities unless otherwise stipulated by a federal law or an RF international treaty.

The labour legislation does not apply to members of the Board of Directors.

Labour Agreement

Under labour agreement the employer shall:

- provide the employee with the work specified in the labour agreement;
- ensure labour conditions which are stipulated by the legal acts, collective agreements, local normative acts and the labour agreement itself;
- pay labour remuneration in full and on time.

The employee shall:

- personally carry out the work specified in the agreement;
- observe in-house labour rules.

Offer letters

Offer letters are not common in Russia, as they are usually not binding, unless they are in the form of invitation to transfer from one Russian employer to another or they contain terms and conditions that enable them to be considered as labour contract.

Secondment Arrangements

Secondment of personnel in Russia is generally prohibited, except for secondment by accredited private employment agencies.

Terms of a Labour Agreement

Essential Terms

- passport data of an employee, his/her TIN and information about employer's representative which has signed a labour agreement;
- place of work (organisation or its structural unit);
- date of starting of work;
- the employee's position, speciality, occupation, qualification or labour function;
- the employee's and the employer's rights and duties;
- description of work conditions, compensation and privileges for employees working under hard and (or) hazardous conditions;
- work and rest schedules (if different from those generally established in the organisation);
- remuneration amount and system (including the basic wage rate, benefits amounts, rises, incentives, terms for social insurance directly related to work).

Optional Terms

- probation period;
- confidentiality clause (on state, official, commercial or other secret);
- employee's obligation to work for a certain period after training effected at the expense of the employer.

The terms of a labour agreement may be amended in writing only, upon approval of the parties.

Non-Competition and Non-Solicitation Clauses

Non-Competition and Non-Solicitation Clauses of standard employment contracts, which are common to foreign employers, do not have anything other than a moral hold over employees in Russia since they are in contradiction with the freedom of labour guaranteed by the Russian Constitution and Labour Code.

Thus, even where stipulated in employment contracts, non-competition and non-solicitation clauses are ineffective in Russia.



Duration of Labour Agreement. Probation Period

Duration of Labour Agreement

Labour agreement may be concluded for:

- indefinite period;
- definite period, not over 5 years (a “**fixed-term labour agreement**”).

Labour Agreement Concluded For an Indefinite Period

A **labour agreement** is recognised as concluded for an **indefinite period** if the agreement does not stipulate its duration period.

A fixed-term labour agreement may be recognised as concluded for an indefinite period if:

- after expiry of the agreement’s duration period the employee continues his/her work and none of the parties demands to dissolve the agreement;
- a fixed-term agreement has been concluded without valid reasons as established by Labour Inspectorate or by a court.

Fixed-term Labour Agreement

A fixed-term agreement is **concluded only where it is impossible** to establish an indefinite term of labour relations due to the specific features of the job or conditions of its fulfilment.

In general, such agreements **are concluded for up to 5 years**, however, the Labour Code and other federal laws may establish other maximum periods (for example, an agreement with an organisation’s general director can be concluded for a period stipulated by the organisation’s statutory documents).

A fixed-term agreement must specify the period of its duration and the reason for its conclusion.

Probation Period

The parties may agree to establish a probation period for an employee in order to check the compliance of the latter with job requirements; the probation clause must be included into the labour agreement (otherwise the employee is considered to be employed without probation).

In general case, a probation period may not exceed 3 months.

Organisation’s general directors, chief accountants, their deputies and heads of organisation’s divisions located separately may be placed on probation of up to 6 months, unless otherwise established by federal laws (a probation period is calculated excluding periods when employees are absent on sick leave or due to other reasons).

A fixed-term labour agreement may be concluded:

- with organisation's general directors, deputies and chief accountants
- with persons employed to perform specific job if it is impossible to determine an exact period required for its completion
- with employees of small business entities with staff up to 35 persons (in retail trading and public servicing – up to 20 persons), and with persons hired by an individual
- with students employed part-time
- with the retired due to age limit and with persons who, due to state of their health confirmed by medical certificate, may be employed only temporarily
- with persons employed to substitute a temporarily absent employee – e.g. a woman on maternity leave
- with persons seconded to work abroad
- with employees at temporary (up to two months) and seasonal jobs
- with persons hired for a fixed term to prevent accidents or eliminate force-majeur effects
- with athletes and arts freelances (in the list of occupations approved by the Government)
- with scientists, high school teachers and other employees selected after competition
- with persons elected for a fixed term for a paid job
- with employees in:
 - organisations located in the Far North if the employee has to relocate there
 - organisations set up for a fixed period or for a term of performance of a certain job
- with persons employed temporarily at the request of a state employment service
- with persons employed to perform work which is not an organisation's usual activity (reconstruction, assembling etc.), or persons hired for up to one year due to expansion of production
- with persons hired for employees' training and retraining

≡ Termination of Labour Agreement

Termination

A labour contract may only be terminated for one of the reasons specifically listed in the Labour Code. The procedure of termination is also expressly provided in the Labour Code and should be strictly followed, or the termination could be judged illegal by a court.

Mutual Consent

The parties may agree to dissolve the agreement at any time.

Termination at Employee's Initiative

An employee may apply for termination at any time with 2 weeks notice. Within these 2 weeks employee may withdraw his/her application, unless there is a written decision to employ a new person who cannot be refused the conclusion of a labour agreement in accordant with federal laws (expectant mothers etc.).

Termination at Employer's Initiative

Termination at the employer's initiative is possible in the following cases:

- employer ceases operating;
- redundancy (an employee who is made redundant is entitled to a 2-month paid notice as well as 1 – 3 month severance pay depending on whether the employee finds an alternative employment. The employer notifies the trade union minimum 2 months before the dismissals, and 3 months before mass dismissals);
- improper performance due to employee's poor state of health or poor qualification;
- change of property owners of organisations (with respect to organisation's general director, his/her deputies and chief accountant);
- employee's multiple failure to perform his/her job duties with no valid reason;
- gross violation by an employee of his/her job duties (e.g. truancy, being drunk at work, breach of confidentiality, theft or infringement of safety rules resulted in serious damage);

- immoral conduct – with respect to employees in educational field;
- decision of general director, his/her deputy or chief accountant resulted in damage to the organisation's property;
- employee submits false information for the labour agreement;
- employee is denied access to the state secret if such access is required by job duties;
- other cases stipulated by law.

Certain categories of employees (for example, expectant mothers and women with children under three) are restricted from dismissal at the initiative of an employer.

Other Grounds for Termination

Labour agreement may also be terminated in the following cases:

- transfer of the employee to a different employer or to an elective position (upon the employee's approval);
- refusal of the employee to continue work under employer's reorganisation or change of the employer's property owners;
- refusal of the employee to continue work due to amendment of essential terms of labour agreement;
- refusal of the employee to transfer to other work required due to his/her state of health (medical testimony required);
- refusal of the employee to transfer to other work when such a transfer is required due to relocation of the employer;
- other grounds stipulated by the Labour Code and other federal laws, in particular for educational personnel, CEO etc.



Guarantees and Allowances. Disciplinary Penalties

Guarantees and allowances

The Labour Code provides for a number of guarantees to employees, in particular:

- employees who have to move to another place at the employer's instruction are entitled to a relocation package;
 - employees being dismissed have right to the following:
 - in case of redundancy, employees must first be offered another job available in the same organisation, if none – get a severance pay to the amount of one monthly remuneration and remain on payroll for up to 2 months until new employment;
 - employees dismissed due to poor state of health or events beyond control of the parties are entitled to a severance pay to the amount of a 2-week average remuneration.
- The following groups of employees have employment **preference** in case of redundancy:*
- those taking care after 2 or more dependants;
 - employees who are the only bread-winners in their families;
 - persons who were injured at work in that organisation;
 - war veterans;
 - employees attending training courses to raise one's skills at the employer's instruction.
- employees who combine working and studying shall get:
 - additional unpaid leave from 1 to 40 calendar days depending on the occasion;
 - a shorter working week (at the employee's request): the week may be shortened by 7 hours per week, the advantageous schedule is valid for 10 months;
 - reimbursement for a round trip ticket, granted once a year to employees travelling to their educational institution.
 - employees transferred to a lower-paid job:
 - due to poor health receive pay at the previous rate for 1 month;
 - due to injury at work receive pay at their usual rate until they recover or are recognised as entirely incapable for work.

- In the event of **injury at work**, expenses for medical, social and professional rehabilitation, or funeral expenses in the event of death of the employee must be reimbursed to the amounts established by the federal law on social insurance;
- All employees are entitled to **sick leave**, amounts of sick leave pay are set by the federal law;
- Employees using their **own property at work** (upon the employer's consent), like cars or tools etc., shall be reimbursed to the amount agreed by the parties.

Disciplinary Penalties

The employer whose employees have not performed their work duly through their own fault has the right to reprimand such employees and finally dismiss them.

Employers **may not impose disciplinary penalties** other than those stipulated by the Labour Code.

Before the employer imposes a disciplinary penalty, it must ask an employee to submit an explanation (in writing) of reasons for his/her misdeed. The penalty shall be imposed not later than one month after the misdeed was committed – one penalty for one misdeed only. **6 months** after the misdeed penalties **may not be imposed** (with respect to misdeeds revealed by an auditor – after 2 years minus the time of court proceedings if any).

An employee may appeal against a penalty imposed.

≡ Currency Regulations for Companies

Rouble is partially convertible in current transactions. Russian corporate residents may open overseas bank accounts, but shall repatriate foreign currency proceeds and sell 80% of them

Currency Control Rules

Repatriation Rule: resident exporters are responsible for crediting of export proceeds onto accounts with Russian banks only. 80% of export proceeds are subject to compulsory sale for Roubles.

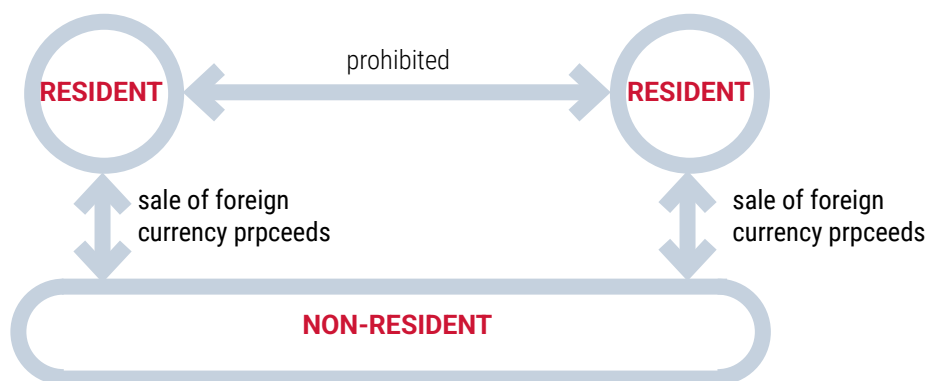
Precise Deadlines Rule: any cross-border contract shall indicate precise deadlines for execution of obligations on repatriation of RUR/foreign currency/goods delivery/return on advances.

Contract Registration Rule: resident shall register with its local bank each cross border loan (credit) and import contract over RUR 3 Mln, as well as export contract over RUR 6 Mln before their execution.

Support Documentation Rule: resident shall support each transaction with documentation filed with its Russian bank.

Overseas Accounts Reporting Rule: Resident corporate entities shall notify tax authorities on setting up of overseas accounts with banks of OECD/FATF member countries. Crediting of such accounts is allowed only from accounts with Russian banks (except for special cases).

Restrictions on Foreign Currency Transactions



Foreign currency transaction between residents and non-residents are generally allowed, while between residents – prohibited (except for special cases).

Administrative Penalties

Illegal currency transactions (eg., by-passing of accounts in Russian banks)

Fine amount

from 3/4 to the entire value of transaction

failing to repatriate foreign currency/RUR proceeds from sale of goods (work, services, information) to non-residents

from 3/4 to the entire value of transaction, or 1/150 of CBR discount rate per day

failing to repatriate foreign currency/RUR advances for goods (work, services, information) never delivered by non-residents

from 3/4 to the entire value of transaction

various documentary infringements: failing to submit of reports on currency operations, confirmation documents (customs cargo declarations, acceptance acts etc.), reports on movement of funds at overseas accounts etc. are fined by up to 1 mln. RUR.

Criminal Sanctions (liable: company management)

Sanction

failing to repatriate foreign currency/RUR proceeds from sale of goods (work, services, information) to non-residents

above 6 mln. RUR: fine of 200-500 thous. RUR. or income for 1-3 years, or imprisonment of up to 3 years

failing to repatriate foreign currency/RUR advances for goods (work, services, information) never delivered by non-resident

above 30 mln. RUR, or by a criminal group, or by using forged documents or SPV legal entity: imprisonment of up to 5 years plus fine of up to 1 mln. RUR or income for up to 5 years

Remitting of funds to non-residents using forged documents, containing a priori fraudulent information on grounds and purposes of transfer

without limit: fine of 200-500 thous. RUR. or compulsory labour of up 3 years, or imprisonment of up to 3 years

above 6 mln. RUR, or by a criminal group by consent, or by using SPV legal entity: imprisonment of up to 5 years with or without fine of up to 1 mln. RUR or income for up to 5 years



Currency Regulations for Individuals

Russian resident individuals shall obey many restrictions on use of foreign currency within the country, as well as on use of accounts with foreign banks

- Russian citizens (except those residing in Russia less than 183 days in a calendar year)
- Foreign citizens holding permanent residence permit

MAY NOT:

- convert Roubles into foreign currency
- export cash foreign currency over USD 10 000
- credit own foreign currency accounts

MAY:

- open foreign currency accounts with foreign banks
- freely debit such accounts, except for settlements with other residents
- credit foreign currency accounts of other residents –not more than USD 5 000 per month

SHALL REPORT TO TAX AUTHORITIES:

- setting-up of accounts with foreign banks within one month
- balances of foreign accounts till May 30 next year (just balances as of 01.01 and 31.12, no details on account' activity)

MAY CREDIT FOREIGN BANK ACCOUNTS ONLY WITH:

- employment income from non-residents if employed abroad
- pensions, stipends, alimony and other social payments
- insurance coverage from non-residents
- return of moneys in case of mistakes or return of goods (services) purchased
- money from close relatives - residents and other residents – not more than USD 5 000 per month

Responsibility for Violation

Currency operations that are not directly provided for by currency legislation are illegal and entail severe administrative fines ranging from 75% to 100% of the amount of the relevant operation(s).

Various documentary infringements: failing to register setting up foreign banks' accounts, submit of reports, etc. are fined by up to RUR 1 Mln.