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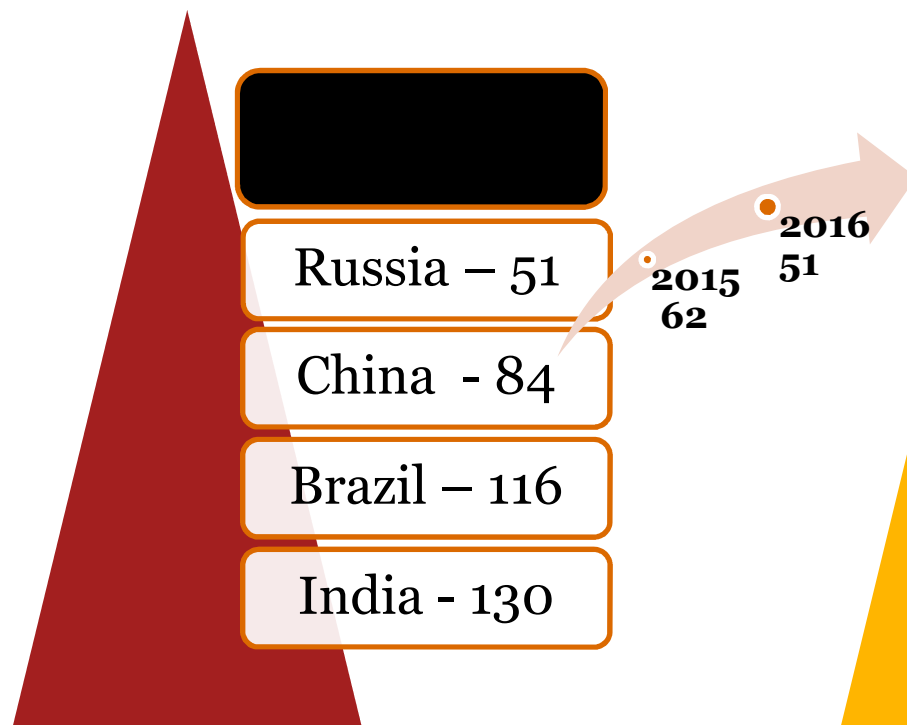
Doing Business in Russia: Taxation Highlights

March 22, 2016

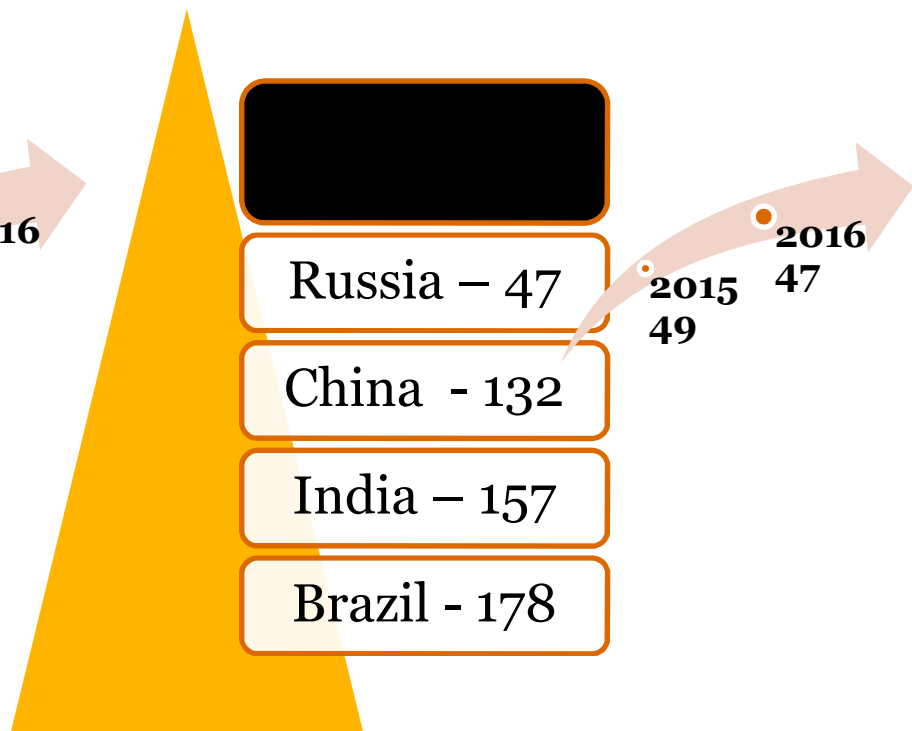


Russia – Doing Business 2016 ranking*

Ease of doing business



Paying taxes



* By World Bank

Options for setting up presence in Russia

Russian legal
entity

LLC – Limited Liability Company (*frequently used*)
ZAO – Closed Joint Stock Company
OAO – Open Joint Stock Company

Branch/
Rep Office

Branch or representative office of a foreign legal entity

Tax
subdivision

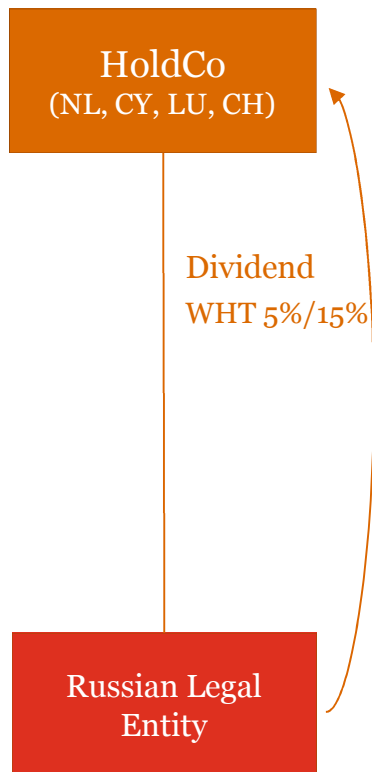
Tax registration of a fixed place of business without establishing a branch or a RO. This form may be suitable for short-term projects only (not possible to hire local staff)

Simple
partnership

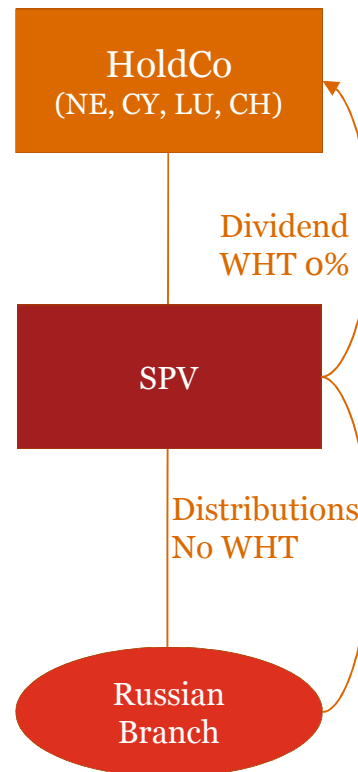
Simple partnership (limited usability, may be relevant for joint activity with a Russian partner), totally different from US partnerships

Operating structures for Russia

Local entity



Branch



Key issues to consider when choosing the structure for doing business in Russia:

- Licensing requirements
- Tax withholdings on distributions from the Russian entity
- Thin capitalization rule and other interest limitations
- Statutory accounting requirements
- Holding jurisdiction
- Substance requirements for holding company
- Eligibility for tax incentives

Russian withholding income tax on payments to foreign entities

SERVICE FEES

No withholding income tax

INTEREST

20% in accordance with the Russian Tax Code

0% in US, NL, CY, CH and some other double tax treaties

ROYALTIES

20% in accordance with the Russian Tax Code

0% in US, NL, CY, CH and some other double tax treaties

RENT/LEASE FEES

20% in accordance with the Russian Tax Code

No exemption under US, NL, CY, CH and other treaties

DIVIDENDS

15% in accordance with the Russian Tax Code

5% in US, NL, CY, CH and some other double tax treaties
(minimum participation requirements apply)

DISTRIBUTIONS FROM SIMPLE PARTNERSHIP

20% in accordance with the Russian Tax Code

0% in US, NL, CY, CH and some other double tax treaties

Russia – Anti-offshore law

! No DTT benefits for companies with no substance

Beneficial ownership concept

- One of the key developments contained in the ‘anti-offshore’ law is the introduction **of the “beneficial ownership”** concept into the Russian Tax Code. Previously this concept was provided in several clarification letters of the Russian Ministry of Finance which required beneficial ownership to be tested by tax agents and tax authorities when granting treaty benefits.
- The ‘anti-offshore’ law makes **treaty benefits not available for foreign persons who have limited powers to dispose of such income, fulfil intermediary functions and do not perform any other duties or undertake any risks**, or if such income is subsequently transferred (partially or in full) directly or indirectly to another person who would not be entitled to benefits if such income were directly received from a source in Russia.
- Beneficial ownership confirmation – new document for confirming the eligibility for DTT benefits

Effective from January 1, 2015

Interest limitation rules

Thin capitalization rule

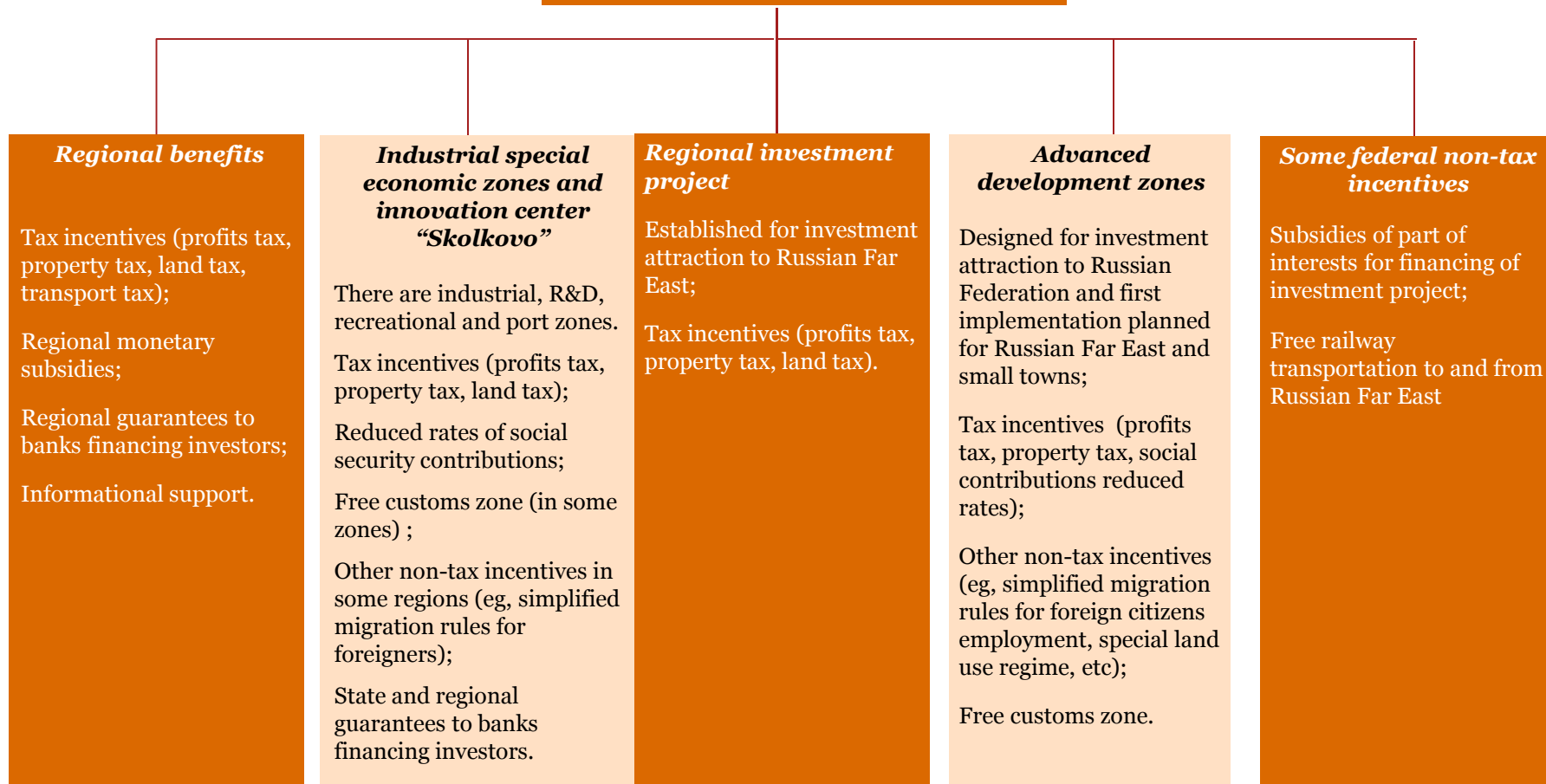
- 3:1 debt to equity ratio (12.5:1 for leasing companies)
- Interest on the excess amount of loan is non-deductible and treated as a dividend for withholding tax purposes

Other interest limitation rules

Limitations for interest rates	In 2015	From 2016
For controllable loans in RUR between <i>Russian</i> related parties	0%-180% of the CBR key rate = from 0% to 19.8%	75%-125% of the CBR key rate from 8.25% to 13.75%
For other controllable related party loans in RUR	From 75% of the CBR <u>refinancing</u> rate to 180% of the CBR key rate = from 6.1875% to 19.8%	75%-125% of the CBR key rate from 8.25% to 13.75%
For controllable related party loans in USD	From LIBOR +4% to LIBOR +7%	
For controllable related party loans in EUR	From EURIBOR +4% to EURIBOR + 7%	

Types of tax and non-tax incentives available for investors in Russian regions

Incentives for investors



Tax environment – general trends

- Growing attention of the tax authorities to the TP issues
- Intra-group charges (including services fees) are scrutinized and often challenged during tax audits due to lack of sufficient documentary support
- Anti-offshore measures (checks of beneficial ownership, CFC rules, determination of tax residency based on the place of management)
- Form over substance approach dominates, but more substantive approach emerges in anti-avoidance practice
- More scrutiny to loss making entities

Eurasian Economic Union (EAEU)

Highlights

Eurasian Economic Union –
an international organization for
regional economic integration
established since January 1, 2015

Member states of EAEU

- Armenia
- Belarus
- Kazakhstan
- Kirgizstan
- Russian Federation

Some economic statistics*

- Population 182.5 million (as of January 1, 2015)
- 14% of the Word's land
- 3.2% of the Word GDP
- Oil and gax production – 1st place and 2nd place in the World, respectively
- Power generation – 4th place in the World
- Mineral fertilizers production - 2nd place in the world

* According to the official statistics of EAEU published
at www.eaeunion.org

Eurasia Economic Union

Highlights

Customs Union of the EAEU member states:

- No customs clearance and border controls between the member of EAEU
- No customs duties on mutual trade between the member states
- Uniform customs legislation, regulations and duty rates
- Special confirmation procedure for zero-rate VAT

Key benefits

- ✓ Ease of administration barriers
- ✓ Lower trade costs
- ✓ Bigger single market
- ✓ New opportunities for business structuring (supply model, logistics, etc.)

Thank you!

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