



Russia – Practical solutions

Selling to Russia Some Tax Considerations

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Россия –Introductory comments

“Essential” market – in size, for profitability & growth!

- Russia is different (alphabet, language, customs)
- Not dangerous (“mafia” problem is overstated, but be careful in some sectors)
- Corruption not usual in B2B transactions
- Bureaucratic, at times frustrating (State Institutions)

Key to success

- Do things the right way
- Be patient
- Build & nurture relationships, but avoid joint ventures



Selling to Russia – Some Tax Considerations

- Taxes Payable by UK exporter
 - ✓ VAT (0%, 10% or 18% - *UK 0%, 20%*)
 - ✓ Customs duty (Standardization of Tariffs, R, Kz, By)

- Payable by Russian company
 - ✓ Profits tax (20%, but non deductibles - *UK 26% -> 23%*)
 - ✓ Personal Income tax (13%, few reliefs - *UK 20% - 50%*)
 - ✓ Social security (34% to Rb 463K; 2012 30% ->Rb 512k, then 10% > UEL; *UK 12% + 13.8%; 2% + 13.8% > UEL*)
 - ✓ Land tax (0.3-1.5% ~ use), Property tax (2.2% max.)



Selling to Russia – Issues for exporters 1/2

Permanent establishment (PE)

What creates PE?

- Continuous presence - “regularly engages in activities” (previous guidance ~ 30 days pa, year for construction)

- What are the consequences?
 - ✓ Taxable presence
 - ✓ Registration within 30 days
 - ✓ Penalties
 - ✓ Tax declaration, Russian accounts and reporting
 - ✓ Best avoided by exporter, but can be dealt with



Selling to Russia – Issues for exporters 2/2

Transfer pricing

- New legislation, following OECD principles
 - ✓ substance over form, prescriptive pricing methods

- Scope of application
 - ✓ Transactions with related entities
 - ✓ “Offshore” tax havens, commodities, minerals, oil & gas
 - ✓ Intellectual property excluded (ambiguity of definitions)
 - ✓ Size criteria

- Consequences
 - ✓ Possible adjustment to prices, reporting requirements
 - ✓ Need for availability of supporting documentation



Selling to Russia – Issues of Customer

- Proper and more documentation
 - ✓ Tax code requires more formal support
 - ✓ Act of acceptance, “chet factura”
 - ✓ Payment, “passport of deal” and FX

- Tax deductibility of expenses
 - ✓ Compliance regime (be patient!)
 - ✓ Accuracy and precision needed

- Confirmation of residence of supplier

- Withholding tax on income of FLE without PE
 - ✓ Payable on royalties or IP income, rental, some transport services, some other income (10% rate)



Selling to Russia – Customs considerations

- Customs values and corrections to price
 - ✓ based on “transaction value”, “database” of similar transactions, but moving to OECD rules
- Customs tariff classification
 - ✓ coding similar to EU, there maybe a “choice”
- Release for domestic consumption
 - ✓ after payment of customs duty plus VAT
- Customs Union
 - ✓ Opens alternative clearance routes by By & Kz



Thank you very much for your attention!

- ✓ Accounting Outsourcing
- ✓ Tax Consulting
- ✓ IT Services / ERP
- ✓ Interim Management
- ✓ Office Sublease
- ✓ Recruiting
- ✓ Visa and Work Permit
- ✓ Outstaffing



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