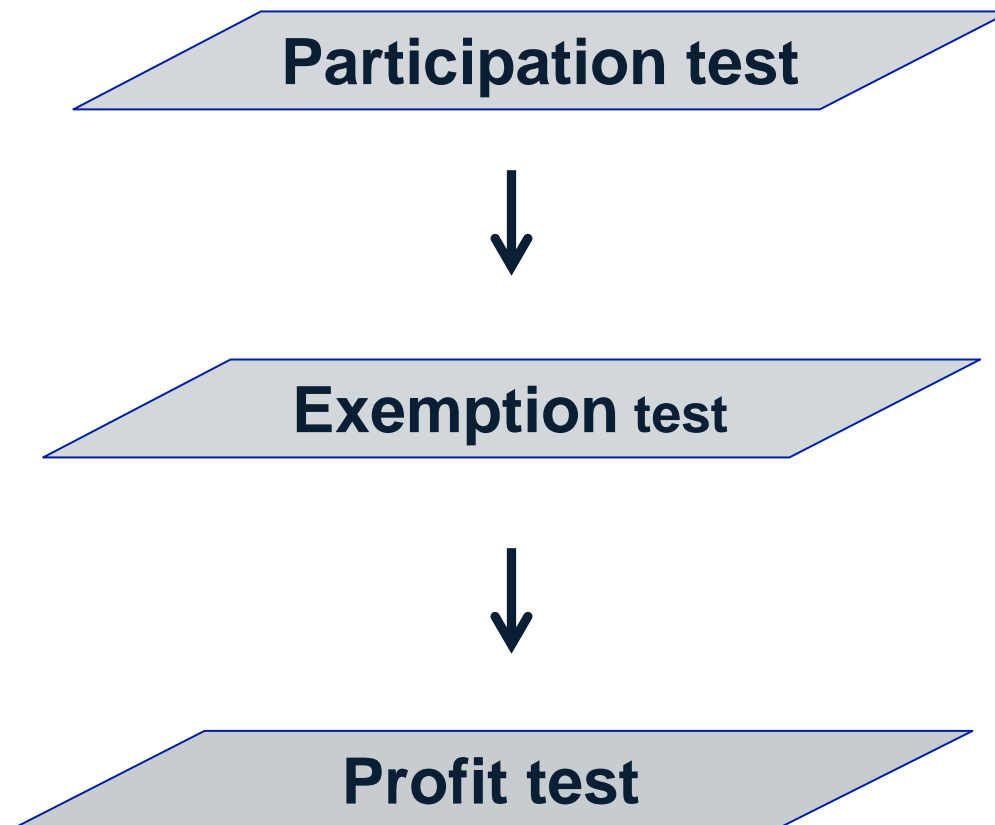


Taxation of profit of the foreign company

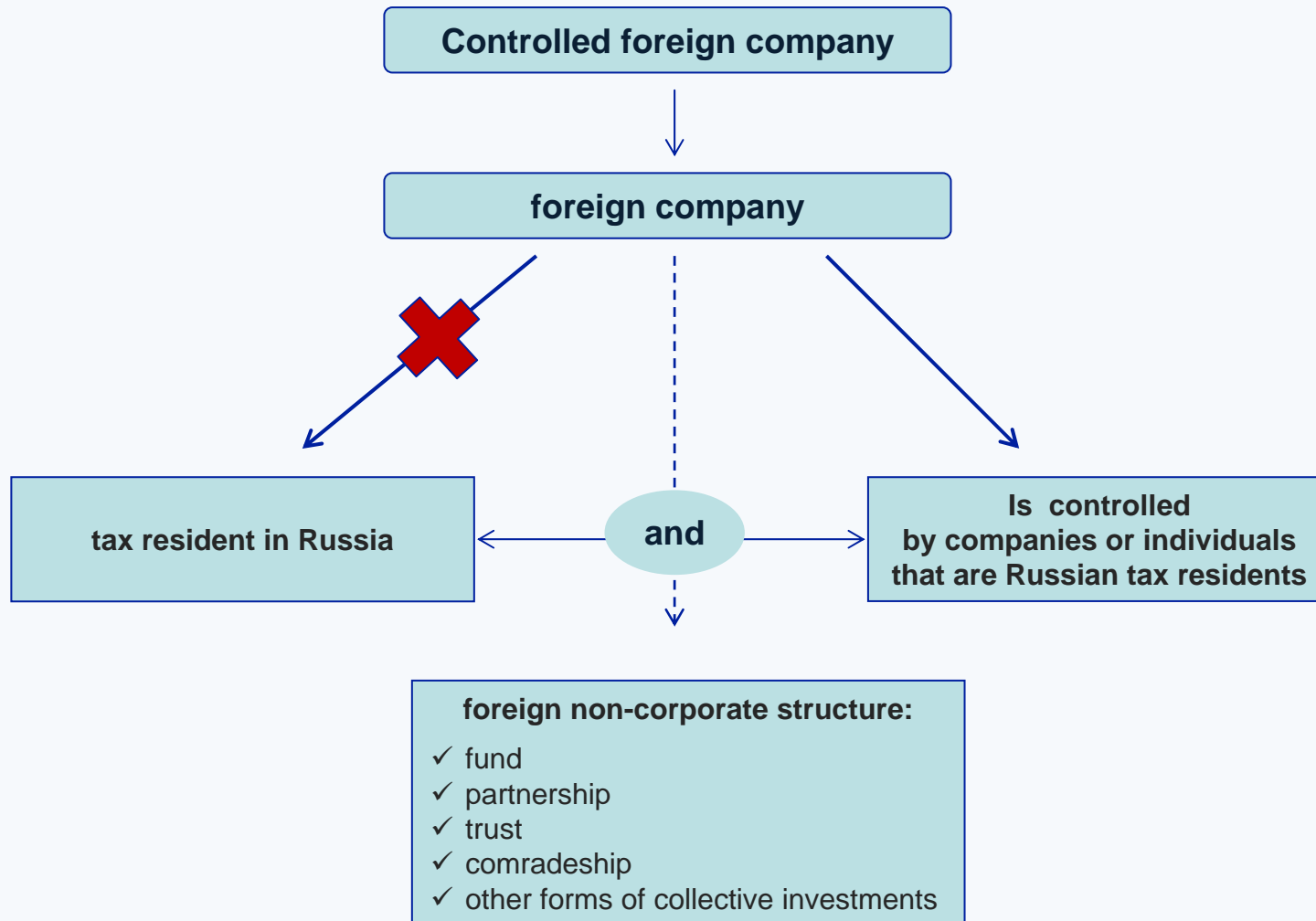


based on the Law, signed after President of RF on November 25, 2014

Recognizing of controlled foreign companies (CFC)



Participation test



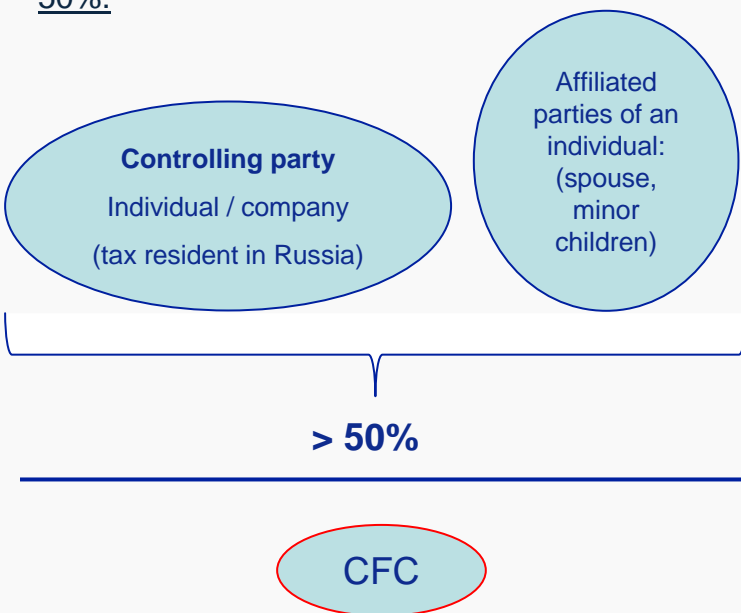
A controlling party

Party of organization (an individual / company) that control it an singly or with the affiliated parties for its own benefit or for the benefit of affiliated parties

Test of control:

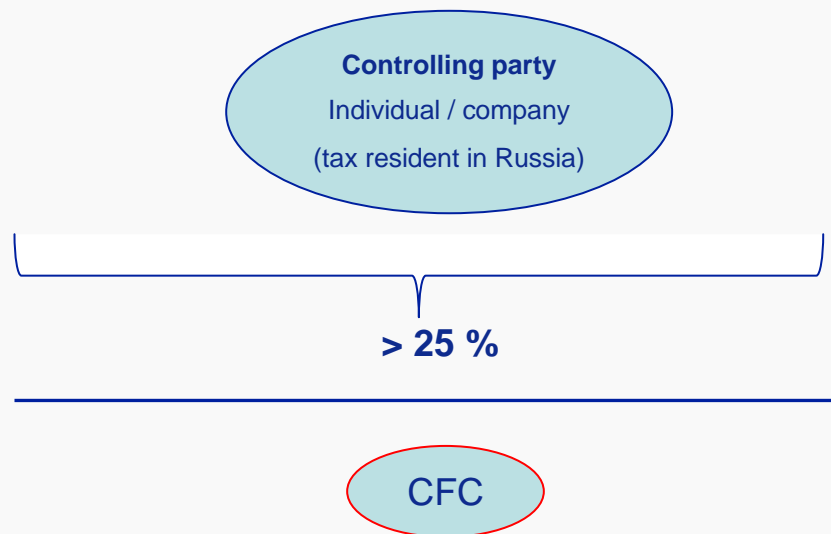
For 2015

interest of an individual, **jointly with a spouse** and/or **minor children** or of a company in the entity exceeds 50%.



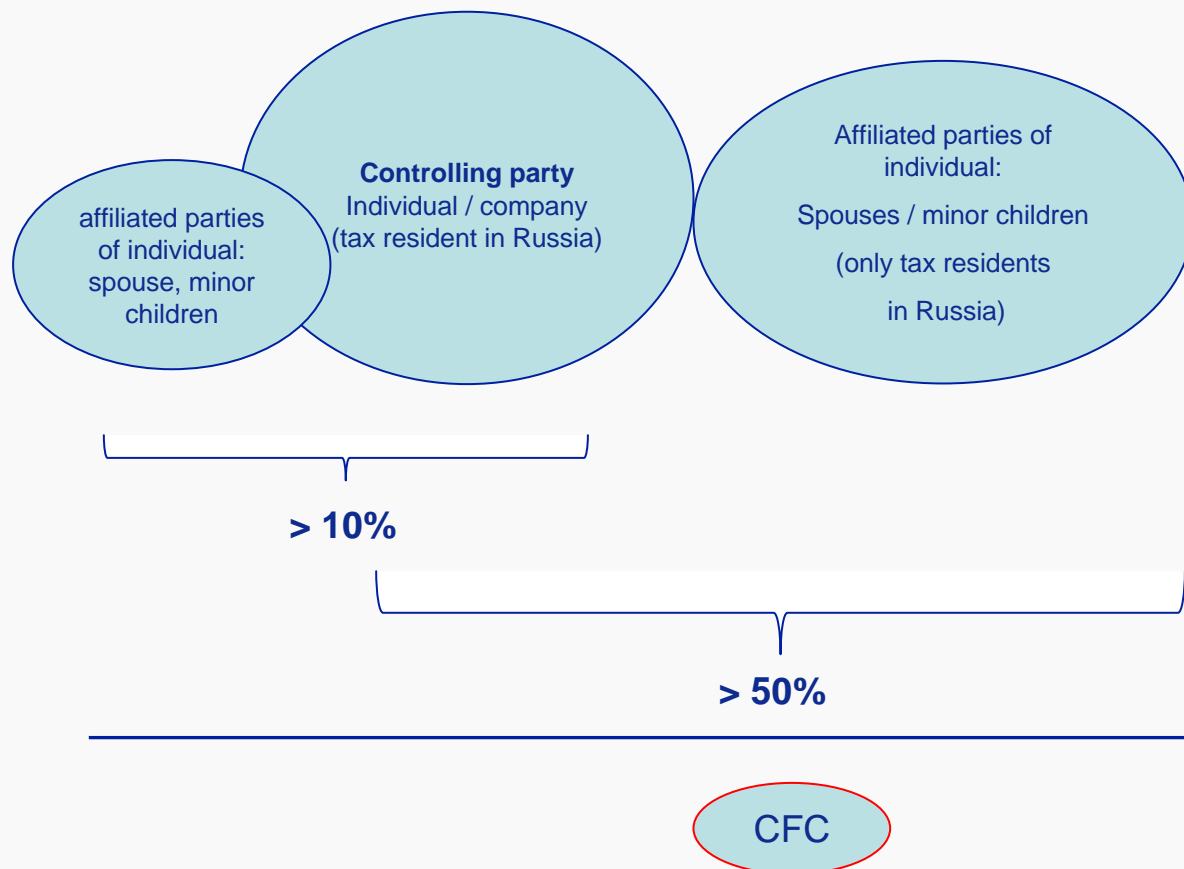
Since 2016

1) an individual/company whose **interest** in the entity exceeds 25%.



A controlling party

- 2) an individual **jointly with a spouse and/or minor children or company** whose **interest** in the entity, exceeds 10%, if the **interest of all parties** recognised as **Russian tax residents** in this entity (for individual - **jointly with their spouses and/or minor children**) exceeds 50%.



Exemption test

1. Non-profit organizations that **doesn't distribute profit (income) among it's parties.**
2. **Foreign non-corporate structure** complied with all the following cases:
 - a founder of such a structure *may not own the assets of this entity*
 - *the rights of founder of such a structure* complied with its individual status (to alienate property, determine beneficiaries and other rights) *may not be transferred to any other party*
 - a founder of such a structure *may not directly or indirectly receive any profit (income) that is distributed among all its participants* (unit holders, grantors or other parties) or beneficiaries/
3. Entity established under the laws of a member state of the **Eurasian Economic Union.**
4. If the foreign company is from a treaty state (except for those states that **do not exchange information with the Russian bodies** and if the **effective tax rate** for this foreign company is at least 75% of the **average weighted rate** or if **the companies share of income from passive activities is not more than 20%.**
5. **Banks or insurance companies** from a treaty state (except for those states that **do not exchange** information with the Russian bodies).
6. **Issuers of listed bonds and others persons** determined under title 25¹³ RTC.
7. Participants of project under **PCA, concession agreements, license or service agreements**, if the **share of income** is at least 90% of the organisation's total income.
8. **The operator** of the new offshore hydrocarbon deposits.

Calculating the effective tax rate

$$\text{Effective tax rate} = T / P,$$

where,

T – amount of tax paid in respect of incomes received by CFC and its subdivisions (including withholding tax at source)

P – amount of CFC's profit

$$\text{Average weighted rate} = (\text{Tax rate}_1 \times P + \text{Tax rate}_2 \times D) / P + D,$$

where,

P – CFC's profit, determined with the rules of chapter 25 RTC for calculating of CFC's profit, excluding dividends

D – dividends

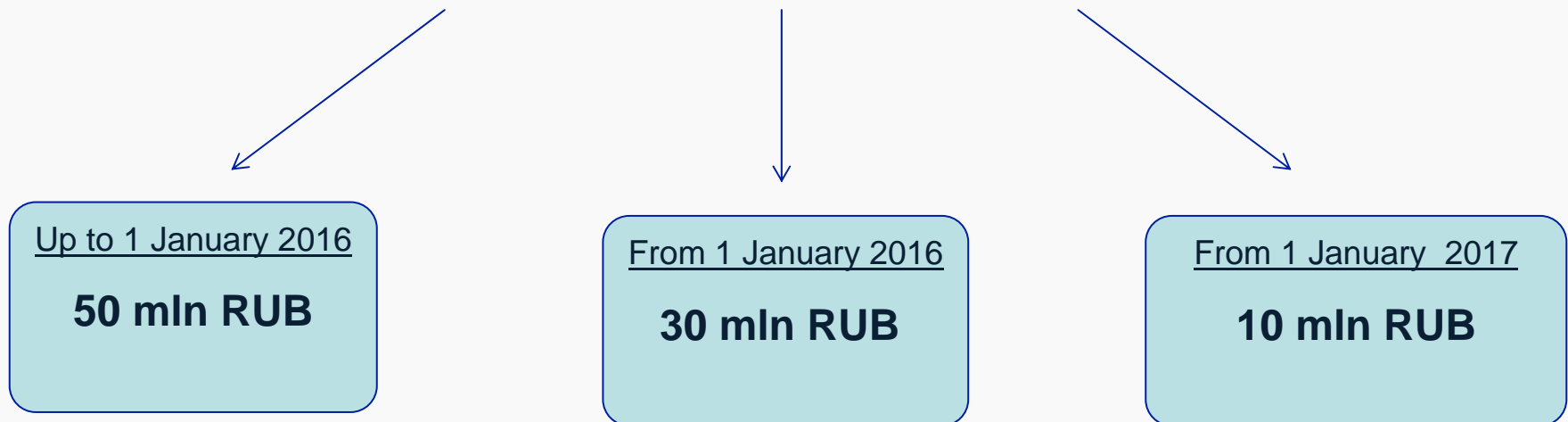
Tax rate₁ – 20%

Tax rate₂ – 13 %

CFC's profit is determined:

- under the rules of RTC Chapter 25
- In accordance with its financial statements subject to audit and CFC is located in a treaty jurisdiction

Threshold for accounting of CFC's profit



Calculating of CFC's profit

Final tax (FT) in respect of each CFC shall be calculated as:

$$FT = R * (PI * CER * Pcfc - D - Ptin) - FIT - RIT - RBIT$$

where,

R – applicable tax rate (13% for PIT, 20% for CIT)

PI – Participating interest of shareholder in target CFC

CER – average Currency exchange rate for corresponding period established by Bank of Russia

Pcfc – Profits of target CFC

D – dividends paid by CFC for corresponding period

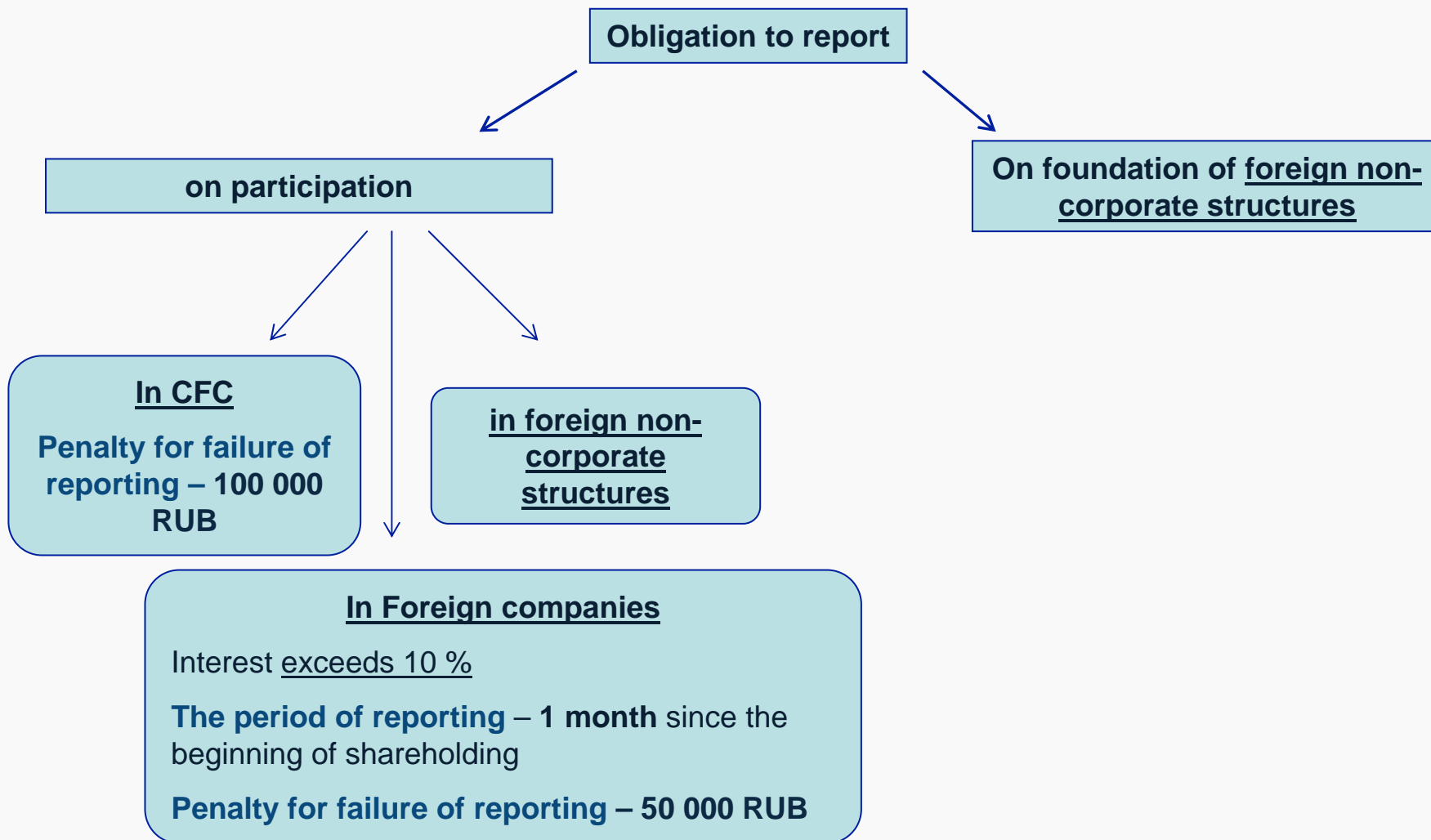
Ptin – profits accounted for tax purposes by other controlling party in case of indirect participation in target CFC

FIT – Foreign income tax paid by CFC

RIT – Russian income tax paid by CFC in accordance with Russian tax legislation

RBIT – Russian branch income tax paid by permanent establishment of CFC in Russia

Reporting on participation. Penalty



Reporting on participants, owning real in Russia

Obligation

Penalty for failure of notification

Foreign companies,
foreign non-corporate structures



property,
(subject to Russian corporate property
tax)



Obligation to notify the tax authorities
about the direct and indirect shareholders
/ participants with 5% share

100%
of the property tax
charged on property

Tax residency

Foreign company – Tax resident in Russia

Double tax agreement

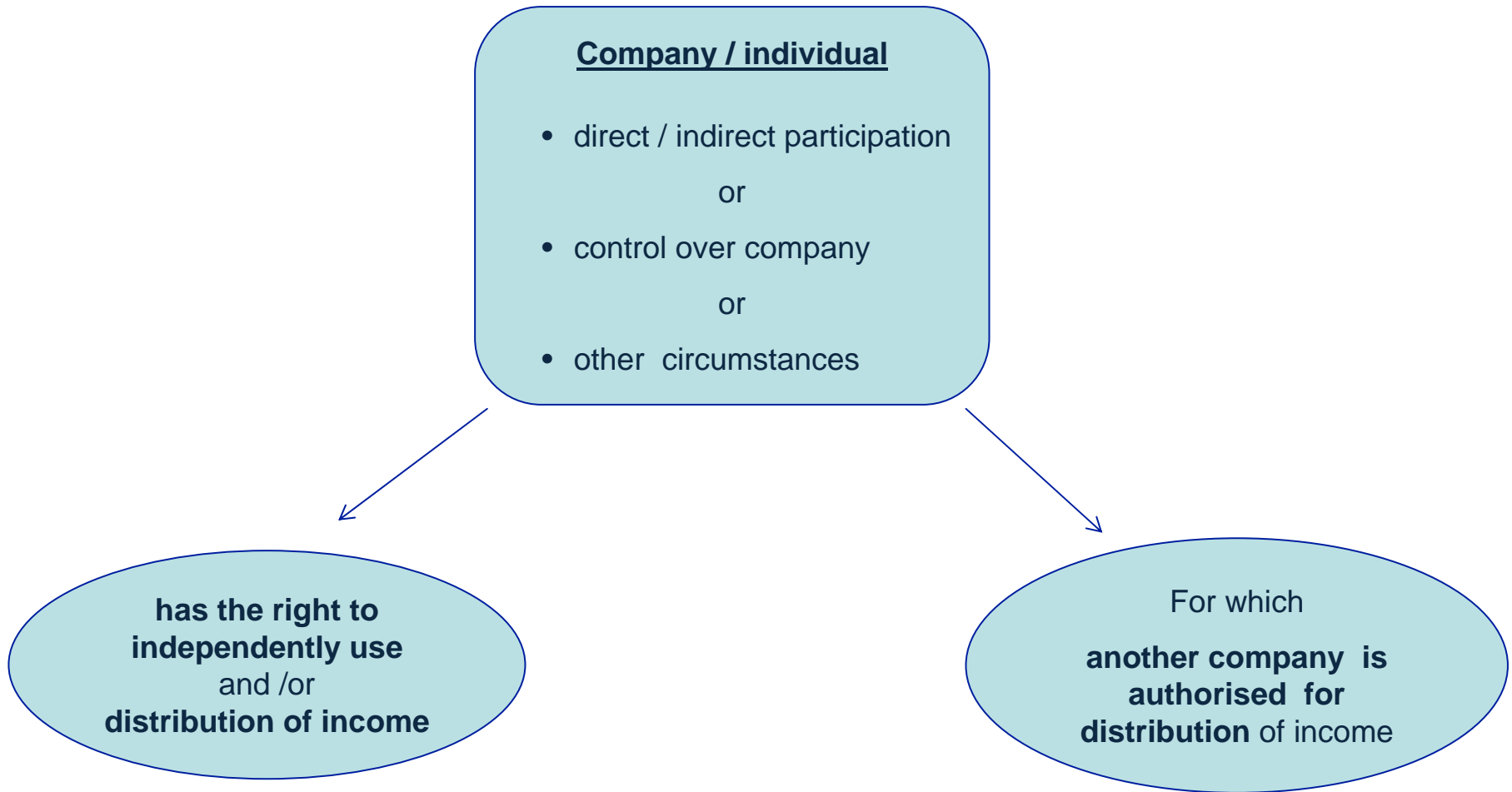
Actual location of an company's management is Russia

exception

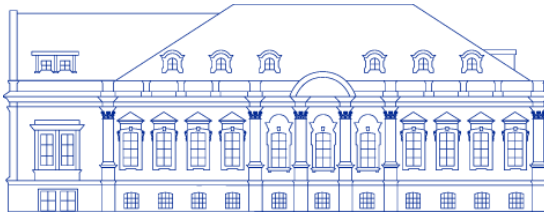
Issuers of tradable
bonds and others

- the **majority** of meetings of the board of directors are held on the territory of Russia then in other states
- executive bodies of organisation **regular** operate on the territory of Russia
- the chief (executive) officers of organisation operate **substantially** in Russia

Beneficial owner of income (an actual right on income)



Thank you!



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FBK | FBK Legal

44/1, Myasnitskaya Str.

Moscow, Russia, 101990

Tel.: +7 495 737 5353

Fax: +7 495 737 5347

E-mail: fbk@fbk.ru