

Russia Snapshot

Basic facts

Population	144.2m	Inflation	10.9% (2004)*
Main languages	Russian, other	GDP per head	US\$4,040*
Currency	Russian rouble (RUR)	GDP growth	7.1% (2004)*
Economic communities	Asia Pacific Economic Co-operation, Commonwealth of Independent States		
GDP sources	5.0% agriculture, 36.0% industry, 59.0% services		
*Economist Intelligence Unit estimate.			

Political environment

The Russian Federation, composed of 89 federal subjects, is a presidential system with a bicameral parliament.

Vladimir Putin was re-elected president by a wide margin in March 2004. He is pursuing policies designed to strengthen the powers of the state and of the federal government in particular, reversing previous decentralisation. Pro-presidential majorities control both houses of parliament. The next parliamentary election is scheduled for December 2007 and the next presidential election for March 2008.

Foreign trade and investment

Exports	US\$182.0bn (2004)*	Imports	US\$94.8bn (2004)*
*Economist Intelligence Unit estimate.			

Major exports: Oil, fuel and gas, metals and machinery.

The enlarged EU accounts for more than half of Russia's total external trade.

Russia ranks 47th of 60 countries in the Economist Intelligence Unit's business environment rankings.

Attracting foreign investment is a top federal priority, but investors often depend on the goodwill of regional authorities and local partners. Authorities have focused on improving the overall investment climate through tax, judicial, banking and customs reforms, rather than providing specific incentives for foreign investors.

Business and financing

Business forms	Legal entity (Limited-liability company, joint-stock company (open and closed)); Joint Activity Agreement or Simple Partnership; Branch and Representative Office
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The registration procedure for legal entities includes state registration, approval of the design of the seal, tax registration, registration with the State Social Funds, registration with the State Statistical Board and opening bank accounts.

Limited-liability companies are the simplest type and investors often use them for wholly owned subsidiaries.

Representative offices and branches are not considered legal entities under Russian law. The registration process for both types includes accreditation, inclusion in the State Register of Accredited Foreign Representative Offices or branches (State Registration Chamber), registration with the State Statistical Board, approval of the design of the seal, registration with the tax authorities (regardless of whether the activities will be of a taxable nature or not), registration with the State Statistical Board and opening bank accounts. Representative offices should perform non-commercial activities only.

The financial sector is concentrated in the capital, Moscow, and, to a lesser extent, in St Petersburg.

The government controls capital transfers via currency-control regulations. There is a requirement to use special types of bank accounts and a requirement to deposit a certain percentage of the transaction value in a special deposit account in the cases of certain transactions between residents and non-residents. The Central Bank may also require registration prior to a resident entity or individual opening a bank account abroad.

Labour environment

Unemployment rate	7.7% (2004)*	Minimum wage	RUR 800 (monthly)
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*Economist Intelligence Unit estimate.

The minimum wage increased to RUR 800 per month from September 1st 2005, and will increase to RUR 1,100 from May 1st 2006. Wage levels vary significantly between regions.

Disability benefits, unemployment benefits and the state pension are paid out of social, medical insurance and pension funds, which are in turn funded mainly via the Unified Social Tax (UST). The top rate of UST is 26% of payroll.

Taxation

Corporate profits tax

Main rate	24%
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Russian companies are taxed on worldwide income with a credit for foreign tax. Foreign companies that are not related to business activities performed in Russia through a permanent establishment are taxed on Russian-source income only. The main profits tax rate is 24%. The rate may be decreased by the regional legislative bodies of the Russian Federation to 20% for certain categories of taxpayers.

Dividends paid by Russian companies to other Russian companies are subject to a final withholding tax of 9%. Dividends paid by/received from Russian companies to/from foreign companies are subject to a withholding tax of 15%, unless otherwise provided by an applicable double-tax treaty.

Interest is generally included in taxable income, but interest received on state and municipal securities is subject to a final withholding tax of 15%. Interest on mortgage bonds and municipal bonds issued before January 1st 2007 for a period of not less than three years is subject to a final 9% withholding tax.

Personal income tax

Flat rate of 13% for residents (30% for non-residents)
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The personal tax rate in Russia is 13% for residents. The tax rate for non-residents, who are taxed on Russian-source income only, is 30%. Residents are defined as individuals actually present in Russia for 183 days or more in a calendar year. Domestic and foreign dividends are subject to tax at 9%, which in the case of domestic dividends is withheld by the paying company. Interest on bank deposits is exempt provided it does not exceed the refinancing rate of the Central Bank of Russia for rouble deposits or 9% for foreign-currency deposits. The excess is subject to tax at 35%.

Capital gains

Taxed as income; some long-term gains of individuals are exempt

Capital gains of companies on immovable property are taxed as ordinary income. Gains from the sale of securities are treated as a separate category of income and cannot be reduced by deduction of regular expenses. Capital losses on securities cannot be set off against general income. Certain long-term gains of individuals (residents) are tax-exempt, including gains on immovable and movable property if owned for more than three years. Gains that are not exempt are subject to income tax at normal rates.

Indirect tax

VAT standard rate	18%	Other rates	10%, 0%
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Value-added tax (VAT) applies to most transactions at the standard rate of 18%. Business entities must initially register for all taxes, including VAT. Companies and individual entrepreneurs can apply for exemption from VAT if their taxable

revenue for three consecutive months is below RUR 1m (from January 1st 2006—below 2m). The lower rate of 10% applies to certain foodstuffs, books and medicine. Exports are zero-rated. Major VAT-exempt activities include medical services and sales of medical equipment, passenger transport services, education and banking services.

Tax administration and compliance

Tax year	Corporations: calendar year; Individuals: calendar year
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Companies must submit a profits tax return every quarter, but may elect to report on a monthly basis. Companies are required to make monthly advance payments of tax. However, a permanent establishment of a foreign company may make quarterly rather than monthly payments. An annual tax return must be submitted by March 28th following the reporting year. Employment income of individuals is subject to deduction of tax at source. Individuals receiving income not subject to deduction of tax at source must submit a tax return by April 30th following the end of the tax year.

Additional tax information

Withholding taxes	Dividends 15%, Income from international freight 10%, Interest 20%, Royalties 20%. Rates may be reduced by tax treaty.
Tax treaties	Russia has more than 70 tax treaties.
Dividends	Subject to withholding tax of 9% when paid in Russia by a Russian company to a Russian company or Russian individual.
Revenue protection	There is transfer-pricing and thin-capitalisation legislation.
Groups	No provision for group taxation.
Incentives	Regional authorities may reduce the regional component of the corporate tax by up to 4%.
Other taxes	Excise duties, Import duties, Inheritance and gift tax (abolished from January 1st 2006), Enterprise property tax, Individual property tax, Land tax, Water tax, Unified social tax, State duty, Mineral extraction tax, Export duties, Transportation tax.

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