A·L·R·U·D

LAW FIRM SINCE 1991

November 18, 2014

Dear Sirs,

Please be informed that on November 18th, 2014 the final version of the draft law introducing the CFC rules, tax residency rules for companies and some other new regulations (the "**Draft Law**") was adopted by the Russian State Duma. Most likely, this week the Draft Law will pass through all required procedures for its enactment (approved by the Federal Council and signed by the President) and will come into force starting from January 1st, 2015.

The main aspects of the Draft Law remained unchanged, however the transition period for recognizing an entity as a controlling was reduced by one year.

This means that the entity is regarded as controlling in case of more than 50% participation interest in the CFC only in 2015. Starting from 2016 this threshold will be reduced down to 25%; the entity will be also recognized as controlling in case of more than 10% participation interest in the CFC if cumulatively Russian tax residents have more than 50% participation interest in such CFC.

The Draft Law was also supplemented with some technical changes including amendments of inaccurate references and adding the formulas for calculation of the effective and average weighted tax rate for the purposes of determination of whether the CFC's profit would be subject to tax in Russia.

Please be reminded that the CFC's profit is not taxable in Russia if (i) the entity is a resident in a country having a double tax treaty with Russia, excluding "blacklist" jurisdictions[1] AND if the effective tax rate is at least 75% of the average weighted rate; OR its share of incomes from passive activities (*e.g.* dividends, interest, etc.) is not more than 20% of total incomes; (ii) in some other cases.

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Should you have any questions, please contact directly Maxim Alekseyev, Senior Partner at **malekseyev@alrud.com**

Kind regards,

ALRUD Law firm

Note: All information was obtained from publicly available sources. The author of this newsletter assumes no liability for the consequences of decision-making based on such information.

[1] The "blacklist" will be approved by the Federal Tax Service and will include jurisdictions that do not exchange tax information.