

August 5, 2014

Dear Sirs,

In August 2, 2014 the new regulation of foreign bank accounts of Russian individuals – currency residents (the “Residents”)<sup>1</sup> that was introduced by a Federal Law No 218-FZ of July 21, 2014 (the “Law”) came into force.

The Law has specified and significantly expanded a list of funds that may be transferred to the Residents’ foreign bank accounts.

The list of the newly allowed transactions includes transferring the following funds to Residents’ foreign bank accounts:

- interest on the account balance
- minimum deposit required for opening a bank account
- cash
- salary and other payments received from nonresidents under employment contracts and related to the employment duties, which the Residents perform outside Russia
- currency assets given as a gift by a spouse or close relative
- funds received from conversion transactions made with assets available in the account
- insurance payments from insurers currency nonresidents
- funds received in accordance with foreign courts’ decisions (except for decisions of the International Commercial Arbitration Court)
- social payments (pensions, scholarships, alimony and others)
- funds received as refunds of previously made payments by the Residents (refunds of mistakenly made transfers and refunds for return of pre-paid goods or services received from non-residents)

Residents are also allowed to receive the following types of payments into accounts that they have opened in banks of states being members of OECD or FATF:

- grants
- income received from non-residents for rent of real estate or other property located outside Russia
- accumulated coupon interest the payment of which is foreseen by the terms of issue of foreign securities owned by Resident
- other income gained on foreign securities:
  - dividends

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<sup>1</sup> Russian currency residents - (A) Russian citizens, except for (i) Russian citizens permanently living abroad for at least one year; (ii) Russian citizens temporarily living abroad for at least one year on a basis of a work visa or a student visa valid for at least one year or on the basis of a combination of several such visas valid cumulatively for at least one year; (B) Foreign nationals or stateless individuals living in Russia under a residency permit

- payments on bonds and bills
- payments upon reduction of the charter capital of a foreign security issuer

Before the Law has come into the force the above mentioned transfers of funds could be considered as illegal currency transaction, subject to fine 75% - 100% of its amount.

### **Reports on transfer of funds via foreign bank accounts**

Along with positive and long-awaited changes, the Law has also introduced new reporting requirements for Residents.

Starting from January 1<sup>st</sup>, 2015 Residents will be obliged to report to Russian tax authorities on transfer of funds via their foreign bank accounts and provide supporting bank documents.

Currently this requirement is applicable only in respect of Russian currency residents – companies and individual entrepreneurs that are obliged to submit such reports on a quarterly basis. The reports include in particular information on the balance of foreign bank accounts at the beginning and at the end of the quarter, the amount of funds in the foreign bank accounts and reasons of deposits and withdrawals of such amounts.

Procedure of the reporting for individual residents is not currently established. It is expected that it will be established closer to the date of entering into force these requirements.

### **Further changes**

Currently, there is a draft bill<sup>2</sup> published for discussion, which sets that Residents will be able to receive on their foreign bank accounts salary not only from nonresidents, but also from residents.

Under the bill, in case there is employment contract between residents, the relevant salary and other related payments can be transferred to a Resident's foreign bank account provided that the Resident performs his responsibilities outside Russia. A similar provision is proposed in respect of payments under civil law contracts between residents.

The bill also clarifies the definition of 'currency resident' for individuals – Russian citizens. According to the bill Russian citizen is deemed Russian currency resident unless the law of other state recognizes such individual as permanently residing in such state.

This approach will, in particular, determine status of Russian citizens in foreign states, with which Russia has established a visa-free regime of entry and residence.

The bill will be available for public discussion until August 13, 2014. After that it may be submitted to the State Duma to undergo legislative procedures.

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Should you have any questions, please contact directly Maxim Alekseyev, Senior Partner [malekseyev@alrud.com](mailto:malekseyev@alrud.com)

Kind regards,

**ALRUD Law firm**

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

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<sup>2</sup> [http://regulation.gov.ru/project/6200.html?point=view\\_project&stage=2&stage\\_id=11449](http://regulation.gov.ru/project/6200.html?point=view_project&stage=2&stage_id=11449)