

Russia

Maxim Alekseyev, Kira Egorova and Olga Pimanova

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Tax

1 How does an individual become taxable in your jurisdiction?

An individual may be taxable in Russia with regard to his/her income or property (real estate and vehicles).

Russia taxes worldwide income of its tax residents (individuals who stayed in Russia for no less than 183 calendar days within 12 consecutive months) and Russian-sourced income of tax non-residents.

Individuals are subject to transport tax pertaining to vehicles owned by them and registered in Russia.

Personal property tax is paid by owners from the inventory value of real estate registered in Russia.

2 What, if any, taxes apply to an individual's income?

Income is subject to personal income tax (PIT).

Individual tax residents should pay a rate of 13 per cent (general rate) on all income received worldwide (salaries, other remunerations, sale of property, etc). A special rate of 9 per cent is provided for dividend income.

Non-residents pay PIT at a 30 per cent rate and at a 15 per cent rate for dividends.

The 35 per cent rate applies to special types of income received both by residents and non-residents:

- interest on bank deposits exceeding certain limits;
- interest incurred on a rate lower than the threshold rate;
- prizes and winnings received within promotional campaigns for goods, works or services in case the respective income exceeds 4,000 roubles; and
- some others.

The PIT is levied on the total income of the taxpayer, but in some cases relevant deductions, allowances and exemptions may be enjoyed.

Russia applies a pay-as-you-earn system (ie, organisations paying income to taxpayers should calculate, withhold and remit the relevant amount of tax to the tax authority).

If an individual becomes a tax resident within a calendar year, the tax previously withheld at 30 per cent during this year may be refunded to the taxpayer upon his or her application.

3 What, if any, taxes apply to an individual's capital gains?

Individual's capital gains are subject to PIT as a general income. The tax rate depends on the tax residency status (13 per cent or 30 per cent).

However, capital gains of residents are tax exempt if the sold property (including real estate) was owned for no less than three years. If this threshold was not reached, the resident may decrease the income derived from the sale of property for relevant expenses.

4 What, if any, taxes apply if an individual makes lifetime gifts?

Gifts in monetary form and in kind from other individuals are not taxable except for gifted real estate, vehicles, and shares.

Any gifts between close family members (spouses, parents and children, grandparents and grandchildren) are tax exempt.

5 What, if any, taxes apply to an individual's transfers on death and to his or her estate following death?

Inheritance tax is not provided as an independent tax and is levied as a part of PIT. It is tax exempt except for royalties which are taxed as a general income.

6 What, if any, taxes apply to an individual's real property?

An individual's real property is subject to a personal property tax levied based on the inventory value of the real estate, which is usually significantly lower than the market value. The applicable tax rate depends on the municipal unit and may vary.

7 What, if any, taxes apply on the import or export, for personal use and enjoyment, of assets other than cash by an individual to your jurisdiction?

Russia, Belarus and Kazakhstan have formed a Customs Union with no customs control on the borders. Therefore, once imported into one of the countries, goods may be moved within the territory of Russia, Belarus and Kazakhstan without customs formalities.

The import of goods for personal use by an individual may be liable to customs duties and VAT.

Generally, imports of up to 50 kg of goods for personal use is exempt from customs duties and VAT provided that the customs value does not exceed the equivalent of €10,000 for goods imported by air and €1,500 for goods imported by other types of transport. Special rules are applicable to certain categories of goods.

If an individual exports goods he or she may be subject to customs duties with respect to certain items (eg, natural diamonds, precious metals with a customs value of more than US\$25,000, etc).

8 What, if any, other taxes may be particularly relevant to an individual?

Most transactions in Russia are considered as taxable for VAT purposes. Hence, individuals have to bear the burden of VAT (10 or 18 per cent) as end consumers of goods, works and services.

9 What, if any, taxes apply to trusts or other asset-holding vehicles in your jurisdiction, and how are such taxes imposed?

Russian legislation doesn't recognise trusts. However, trusts may be established by Russian individuals and are usually used for the purposes of succession and protection of capital.

The transfer of assets to trusts is not regarded as a taxable event. Income and capital received from trusts are subject to 13 per cent personal income tax.

10 How are charities taxed in your jurisdiction?

Individuals can get special tax deductions (social deductions) for certain types of costs associated with charities. The charity amount can be deducted only in cases when the donation is transferred for specific purposes. The deduction cannot be more than 25 per cent of total taxable income.

Charity income is generally exempt for the recipient.

Succession

11 What property constitutes an individual's estate for succession purposes?

In Russia an individual estate for succession is considered as a complex of rights and duties and consists of all possessions, property rights, obligations and other assets belonged to the testator at the day of commencement of succession. The same rules apply to the assets in joint shared property (shares in the authorised capital of companies, land plots, etc).

Rights and duties which are closely connected with the testator (right to alimony, compensation for personal injury) and personal non-property rights and other intangible benefits are not included in the estate. Spousal shares in jointly acquired marital property is also excluded from the estate.

The Russian legislation does not contain any rules regarding beneficial ownership. So the assets located or registered in Russia can not be in the beneficiary ownership. As for foreign immoveable property, the beneficial ownership of such assets will be transferred to the heirs under the rules of the country where they are located. The beneficial ownership of moveable property outside Russia may also be transferred to the heirs but this practice is very rare in Russia.

12 To what extent do individuals have freedom of disposition over their estate during their lifetime?

The freedom of disposition of individuals is limited in the following cases:

- an individual is not entitled to dispose his or her share in joint shared property without notifying the other owners of that property as they have a pre-emptive right to acquire his or her share;
- an individual is not entitled to dispose of his or her share of the authorised capital of limited liability companies and stock in closed joint-stock companies without notifying the other shareholders of the company as they have pre-emptive rights to acquire his or her share. Also, there may be a requirement to obtain the consent of the other participants of the company in order to dispose of the share;
- an individual is entitled to dispose of any joint property (including marital property) only if all owners of that joint property agree with such a disposition; and
- if an individual fails to perform law requirements concerning the maintenance of property, is not entitled to own some kinds of property or this property is taken out for state or municipal needs then he or she can be forced to dispose of the property.

The Russian law does not contain any rules relating to the clawback of gifts on death. But the transactions concluded by the testator during his or her lifetime may be disputed by the heirs in the court after the death of the testator if the testator was incapable during concluding these transactions or they were concluded in contempt of the law rules.

13 To what extent do individuals have freedom of disposition over their estate on death?

Testamentary freedom according to Russian law means that first, any property existing at the moment of the death of a person (both within Russian and abroad) may be bequeathed and second, the property of the person may be bequeathed to anyone in any shares.

Testamentary freedom is restricted by compulsory shares for minor children, a disabled spouse or parent and any dependants of the decedent. Compulsory share means that these persons inherit, irrespective of the contents of the will, at least half of the share each of them is entitled to in the case of succession by the operation of the law.

14 If an individual dies in your jurisdiction without leaving valid instructions for the disposition of the estate, to whom does the estate pass and in what shares?

In the event of succession by the operation of law (intestacy), the lawful heirs shall be called upon to inherit in compliance with the priority ranking. There are seven levels of successors. The heirs in each following level inherit the estate if there are no heirs in the other prior levels. The shares of all heirs in the respective level shall be equal.

The order of succession of the escheat property in Russia prescribes that the state shall inherit all the moveable property of the decedent irrespective of its location and the immoveable property situated in the territory of Russia.

15 In relation to the disposition of an individual's estate, are adopted or illegitimate children treated the same as natural legitimate children and, if not, how may they inherit?

In the event of succession in the absence of a valid will, an adopted child and his or her descendants on one side and the adopter and his or her relatives on the other side are qualified as relatives by origin (blood relatives). Children whose parents are limited in parental rights are also entitled to inherit the estate of these parents.

Illegitimate children are entitled to inherit estates if their descent from the testator is duly established by the registry office or court.

16 What law governs the distribution of an individual's estate and does this depend on the type of property within it?

Under Russian law, distribution of an individual's estate and other succession relationships are governed by the law of the country where a testator had his last place of residence. The distribution of immoveable property is governed by the law of the country where property is located. If immoveable property is recorded in a state register in Russia its distribution shall be governed by Russian law.

The capacity of a person to make a will or revoke it and the form of a will or will revocation act shall be governed by the law of the country where the testator had place of residence when making such a will or act.

17 What formalities are required for an individual to make a valid will in your jurisdiction?

To make a valid will in Russia an individual must be fully capable and sign a will in person.

The will shall correspond to the following requirements:

- it shall be made in writing and certified by the notary (or other authorised persons);
- it shall contain dispositions of only the testator's property;
- a closed will shall be signed by the testator and transferred to the notary in the presence of two witnesses; and

- the will shall bear an indication of the place and date of its certification.

18 Are foreign wills recognised in your jurisdiction and how is this achieved?

Foreign wills are recognised as valid in Russia if they are made in accordance with the legal provisions of the country where the testator had his last place of residence when making the will. Foreign wills made in accordance with Russian legal provisions shall also be recognised as valid in Russia.

19 Who has the right to administer an estate?

In Russia, the following persons are entitled to administer an estate:

- heirs by will or by operation of law;
- the executor of a will (a person irrespective of being an heir or not appointed by the testator to administer an estate. Powers of the executor are restricted and are based on the will and terminate when heirs acquire the estate); and
- the notary (in case one of the heirs, the executor of the will, a local authority, custody authorities or other persons grant him authority to administer the estate in order to save the estate and act in favour thereof).

If the estate consists of an enterprise, a share in the authorised capital of a company, securities, etc, then a notary or executor shall conclude a fiduciary agreement and a trustee (a sole proprietor or an organisation appointed by successors to act according to an agreement in favour of themselves and the estate) shall administer the estate.

20 How does title to a deceased's assets pass to the heirs and successors? What are the rules for administration of the estate?

The deceased's assets pass to the heirs and successors only if they agree to accept such assets (ie, take possession or management of the assets, take measures in order to save the assets, pay for the debts of the deceased, etc).

The heirs and successors shall file an application to the notary at the place of commencement of succession within six months from the death of the deceased. The notary shall issue a certificate of succession rights to those heirs and successors that accept the assets of the deceased. After the issuance of this certificate the heirs and successors are considered to own the assets from the date of commencement of succession irrespective of the date of its factual acceptance or the state registration of rights. The heirs and successors are not entitled to become legal owners of the assets prior to expiration of the six-month-term for acceptance of the succession.

Administrative measures to protect the estate (ie, collecting money or other assets payable to the testator, etc) shall be taken, but the authority of the manager of the estate is limited by law and shall only be valid until the estate passes to the heirs.

21 Is there a procedure for disappointed heirs and/or beneficiaries to make a claim against an estate?

Disappointed heirs or beneficiaries are entitled to file a claim against an estate. To dispute a will they must file a claim to the court of general jurisdiction where the succession was commenced and prove one of the following circumstances:

- the will was made in an improper way;
- the testator was incapable or unable to understand the consequences of his acts and control them when making a will;
- the will was made under deception, force or threat;
- the will violates the right of these persons to compulsory share in the inheritance.

Capacity and power of attorney

22 What are the rules for holding and managing the property of a minor in your jurisdiction?

Under Russian law there are three aspects of the right of property (holding, enjoyment and management). A minor can hold and use the property, but the right to manage the property on his own is restricted until the attainment of majority or emancipation. Until the age of 14, the right of managing the property can be performed by the children's parents, adoptive parents or foster parents (statutory representatives), except for petty daily transactions, transactions related to the obtaining of the profit on a royalty-free basis, disposal of the funds received from the statutory representatives which can be performed by a child under 14 years old without any restrictions. Minors between 14 and 18 years of age can participate personally in the accomplishment of a deal with prior written consent or ratification of their statutory representatives except for the certain deals stipulated in the law such as disposing of salaries, educational grants, performing petty daily transactions, deposits to credit institutions and the disposition of same, and the performing of intellectual property rights.

Liability for children up to 14 years age is to be carried out by their statutory representatives and minors between 14 and 18 years of age are responsible for deals performed by themselves.

Statutory representatives are entitled to manage the minor's property but only in the interests of the minors themselves. Transactions with the minor's property should be under the control of the tutorship and guardianship authority.

23 At what age does an individual attain legal capacity for the purposes of holding and managing property in your jurisdiction?

In accordance with Russian legislation, an individual has legal capacity to hold and use a property at any age, but the right to manage the property depends on a person's age (see question 12). At the same time a minor over 16 years of age may be considered as fully legally capable in the event of:

- emancipation if he or she is working under the labour agreement or performing a business activity. The decision of the tutorship and guardianship authority as well as the consent of any statutory representatives (parents, adoptive parents, foster parents) or a court decision is required; or
- marriage under the special consent of the local municipal authority. The laws of the regions of the Russian Federation may stipulate the cases in which marriage under the age of 16 is possible.

24 If someone loses capacity to manage their affairs in your jurisdiction, what is the procedure for managing them on their behalf?

Under Russian law there are three events which require the management of assets on behalf of the person:

- fully legal incapacity due to a mental disorders – requires tutorship established under a court decision. The property shall be managed by the guardian or tutor;
- limited incapacity in case of alcohol abuse or drug addiction – requires an establishment of guardianship by the court. The person is entitled to perform petty transactions, while other dealings are subject to the consent of the guardian;
- the state of health of a capable person of majority age – wardship (patronage) may be established by the tutorship and guardianship authority. The dealings shall be performed on behalf of the person under a commission agreement or a fiduciary agreement or other agreement.

Immigration

25 Do foreign nationals require a visa to visit your jurisdiction?

In most cases foreign nationals require a visa to enter Russia. Types of visas are different and depend on the purposes of a foreign national's trip (eg, tourist, business, education, private and transit). Russian visas are issued by Russian consulates in foreign countries upon an application and the presentation of a set of necessary documents. The documents and the procedure for issuing a visa depend on its type.

Citizens of a number of former USSR states do not need a visa to enter Russia. Citizens of a number of other countries which have bilateral treaties with Russia do not need a visa to enter Russia for certain purposes (tourism, etc), but normally if their period of stay in Russia exceeds a certain limit (usually 90 days), the visa will be required.

26 How long can a foreign national spend in your jurisdiction on a visitors' visa?

The period of stay in Russia of a foreign national depends on his or her type of visa.

For example, a tourist visa is valid for up to 30 days while a business visa may be valid for a period from 30 days for up to one year. Business visas may be single, double or multiple entry. Under a multiple entry visa the period of stay in Russia of a foreign national must not exceed 90 consecutive days within each 180 days.

Work visas issued to foreigners who have work permits issued under the standard procedure are usually valid for up to one year, work visas for foreigners who have work permits of highly qualified specialists may be issued for a period of up three years. The period of stay in Russia under such visas is limited only by the visa's terms.

Education visas are usually issued for the term of study but not for more than one year.

Visas for family members accompanying a foreign national who has a work permit and a work visa are usually issued for the period of the visa of a foreign national who has a work permit.

27 Is there a visa programme targeted specifically at high net worth individuals?

Generally, visa rules apply to all foreign nationals irrespective of their origin and social status.

The only special visa programme that has been established is for foreign nationals who come to work in Russia as highly qualified specialists. A foreign national may be hired as a highly qualified specialist if he or she has experience, skills and the necessary degree of education in the industry where he or she intends to be employed. The employer itself assesses the level of experience, skills and edu-

Update and trends

The Russian anti-money laundering authority, along with the Federal Tax Service, are developing a bill to introduce amendments into tax, banking and currency control rules. The bill, inter alia, proposes to decrease the threshold at which a transaction becomes subject to the close scrutiny of the authorities; obligate banks to identify not only their client but also any beneficiaries (ie, any individuals who give instructions to the clients of the banks); and notify tax authorities on all bank accounts opened by an individual.

The tax authorities tend to make use of the exchange of information under tax treaties and identify the beneficiary of income channeled via offshore companies.

It should also be noted that the Russian Civil Code is currently under review and one of the proposals is to implement a general requirement to disclose the beneficiaries of off-shore companies operating in Russia. At present this proposal has not been accepted but it is still a hot issue and the possibility that such a disclosure requirement (or a similar one) will be finally incorporated in Russian law cannot be discounted. Also, the following gives an example of current trends in this area: contractors of so-called 'state companies' have already been requested to disclose their beneficiaries, otherwise they are not able to continue their business with state companies.

cation of such a foreign national and bears all relevant risks. The salary of such a foreign national must be at least 2,000,000 roubles gross per annum.

Like other foreign nationals who come to work in Russia, a highly qualified specialist needs a work permit and a work visa. A work permit may be issued to him or her for a period of up to three years (while for other foreign nationals it is issued for a period of up to one year). The procedure for hiring a highly qualified specialist is simpler than that established for hiring other foreign nationals.

Some additional obligations are imposed on employers when hiring foreign nationals as highly qualified specialists.

28 If so, does this programme entitle individuals to bring their family members with them? Give details.

A foreign national who is hired as a highly qualified specialist is entitled to bring his or her family members to Russia. Family members are spouses (partners are not considered family members in terms of Russian law), children (including adopted ones), spouses of children, parents (including adoptive ones), grandfathers, grandmothers and grandchildren.

Visas for the highly qualified specialist's family members are issued for the period of his or her work visa (ie, for up to three years). Under this visa they are entitled to work in Russia – provided

ALRUD

Maxim Alekseyev
Kira Egorova
Olga Pimanova

malekseyev@alrud.com
kegorova@alrud.com
opimanova@alrud.com

17, Skakovaya str
125040, Moscow
Russia

Tel: +7 495 234 9692
Fax: +7 495 956 3718
www.alrud.com

they have a work permit – as well as to study or perform another activity.

An employer that hires a highly qualified specialist must provide him or her and any family members with a voluntary medical insurance policy for the whole period of their stay in Russia.

29 Does such a programme give an individual a right to reside permanently or indefinitely in your jurisdiction and, if so, how?

A highly qualified specialist and his or her family members may apply for a residence permit for the term of the permit. The procedure for obtaining a residence permit for them is simplified since they are not allowed not to obtain a temporary residence permit as a preliminary step before obtaining a residence permit.

In order to apply for a residence permit, a highly qualified specialist should present an application and a set of necessary documents to the Russian migration authorities.

A residence permit may be extended following the extension of a work permit or work visa for a highly qualified specialist and a work visa for his or her family members.

30 Does such a programme enable an individual to obtain citizenship or nationality in your jurisdiction and, if so, how?

A highly qualified specialist and his or her family members may apply for Russian citizenship under the general rules (ie, after five years of continuous domicile in Russia under a residence permit).