

Dear Sirs,

11 February 2013

Please note the decision of the Moscow City Court in Case No.11-25333 dated 30.11.2012 in which the Court ruled on taxability of interest received from deposits in foreign banks.

Pursuant to Article 214.2 of the Tax Code of the Russian Federation, interest received from foreign currency deposits is subject to personal income tax only to the extent it exceeds 9% annual rate. The Ministry of Finance of the Russian Federation applies this rule to deposits in foreign banks, while tax authorities believe that in the event of foreign bank deposits a full amount of interest is subject to taxation.

In its decision the Court upheld the tax authorities' position. The Court argued that under the Tax Code of the Russian Federation only a Russian bank can be considered a "bank" for tax purposes, while foreign banks do not fall under this definition. Hence, only interest received from deposits in Russian banks is exempt from personal income tax. Interest on deposits in foreign banks is taxed at the general rate in full. A reference of the taxpayer to the clarifications of the Ministry of Finance was rejected by the Court saying that these clarifications are not binding, being just answers to questions raised by particular taxpayers.

Therefore, Russian tax residents receiving income in the form of interest on deposits in foreign banks should take into account the tax authorities' position upheld by the court judgment.

In addition, please be informed that Russian exchange control rules disallow Russian citizens residing in Russia to receive interest from deposits in foreign banks to their bank accounts in foreign banks. Non-compliance with this rule implies a fine of 75% for up to the amount of all interest income received.

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We hope you will find this information helpful. Should you have any queries, please, do not hesitate to contact **Senior Partner Maxim Alekseyev** malekseyev@alrud.com.

Sincerely yours,

Law Firm ALRUD

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