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BASIS OF TAXATION SYSTEM
OF THE RUSSIAN FEDERATION

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ABSTRACT

Russia is one of the most important target countries of export and direct investments for finish companies. The importance of understanding the basic legal systems is a key issue while acting in Russia. Especially, the basis of Russian taxation is vital to know, before starting business activities with legal and economical consequences. The main problem has been to understand this construction of multiple laws and acts, administration levels, court system and jungle of Russian taxes as a whole picture. The purpose of the thesis is to give this overall picture of construction of Russian taxation for persons, who might be involved in business activities in Russia. The thesis is made mostly from the theoretical legal point of view, because of the nature of the taxation. Applying problems are varying throughout the Russian Federation and that is why, focusing to the special applying problems has been left out.

The main prevailing taxes and fees of organisations are 24% standard profit tax, regressive unified social tax from 26% to 2%, value-added tax from standard rate of 18% to 0 %, dividends from standard 15% to special 0%, variable excise taxes and customs fees according to markets value transferred inside or imported to the territory of Russian Federation. The applying tax rates for Russian and foreign companies might differ from each other. The most important tax for resident individual persons is standard income tax of flat rate of 13% and for non-resident individual persons fixed rate of 30%.

Russian taxation system has been developed significantly during last 8 years after enacted the Tax Codes. Amount of the different kinds of taxes and fees has dramatically decreased and arbitrariness of the all level authorities has been limited. Conclusion of the thesis is to show, that Russia is a potential choice for a company to do profitable business.

KEYWORDS: Russian taxation, Russian taxes and fees, taxation, taxes, fees

1. INTRODUCTION

Russian modern taxation system has traditionally seen as a set of complex, rapidly changing rules and large variation of different kind of applications. On the other hand, the renewals of the tax and civil regulations (the Tax Code parts 1–2 and the Civil Code) have given completely new direction to more simplified taxation and effective legal environment. It is widely recognised that basic principles of the taxation system should be known in some basic level by persons involved in business in Russia or another foreign country. New transition market economies like Russia can not yet be as far developed as the western well-ordered market economies. It is under general valuation, is it really necessary for Russia to act like the Western or Asian market economies. May be some kind of different, Russian own market economy, approved overwhelmingly by citizens of Russia, might be a better solution, because of its higher public acceptability. More about earlier problems of the Russian tax systems, like Hultin (1997: 269).

Taxation has traditionally been a statutory way to pay a specified share of corporate profits or individual benefits of using possibilities of infrastructure and resources to target country. That is, why taxation regulations are always inside decisions of the target country (even special region or local place), limited by the boundaries of the certain territory. We have to approve them and organise our business activities in the most effective way accordingly those rules. Because of taxation is one of key areas in strategic business planning and controlling, it is vital to know the legal bases and tax system. In this thesis, it is meant to give some mainly legal based starting-point issues of prevailing regulations and ideas of the Russian taxation. There is also given prevailing basic information about administrative, juridical and tax structure of the Russian, which should be known before starting to study or research more closely special taxation applying problems.

1.1. Why study construction of Russian taxation

At the very first, there are a few vital reasons, why study Russian taxation system and why it is important for a foreign company to have basic knowledge of Russian laws and taxes connected to business activities (Aromäki 1998: 284)?

1. The most important reason is that an enterprise or an individual can predict and create its own business plans through an inadequacy way of reliability, before making real business activities with legal consequences in Russia (**economical planning reasons**). On the other words, it must find out and understand possibilities, threats and economical requires against investments (like profitableness accounts, estimated year/month/week budgets, legal obligations, responsibilities to pay taxes and fees, registration requirements etc.). It is urgent to notice that particularly long-run, but also short-run, tax planning possibilities are limited (Hultin 1997: 269; Kallonen & Ketola 1996: 100–101).
2. Creating different kind of financial calculations for business evaluations requires a lot of beforehand knowledge about taxes, fees, licences, other official liabilities and unofficial costs (**financial reasons**). Here unofficial costs means all other costs from business activities, like costs caused by the technical investments required, excluding payments required to pay by any regulations prevailing in Russian Federation, subjects of federation, territories, regions, independent states or/and local authorities.
3. Without inadequacy know-how of basic legislation of Russian Federation, it might come into or even being involved in cheating, even without observing it by its own managers (**fair business view reasons**). In the long run, those kinds of unfair business actions might cause serious problems, especially with tax inspectors and/or even the tax policy. This will directly influence to the corporate everyday activities, image and finally to the market price of the stocks.
4. By following future amendments in Russia, an enterprise can utilise appearing opportunities for more effective way and so increase its profits and market value in Russia. Or in the worst situation avoid bankruptcy by using effective strategic planning of multidimensional taxation (**surviving factors**). Especially tax avoidance (separated to tax evasion, which is globally illegal) is one of the most important parts of every day business planning and surviving actions in Russia (Tambovtsev 2000: 3–4).
5. While taking care of everyday business activities with taxation authorities, local lawyers or experts, it is important to understand, what they recommend corporate to do and be able to find out the legal terms and local practices by discussing with them. Business activities are most successful or even vital by using personal

contacts and knowing local business habits. By knowing the basic regulations and local authorities it can also show that an enterprise and its management are really interested in and have committed itself to act through legal ways in Russia (**success factors of everyday business activities**) (Aromäki 1998: 29). It is searched that from the Russian companies business-to-business point of view, the most important factors are quality of products, price, the terms of delivery and liability of chosen business partner (Rakennusteollisuus 2004: 48).

6. Effective planning of corporate taxation and willingness decrease burden of taxes requires both accounting and legal knowledge. Planning in the limits of legal ways of tax avoidance will give the best results in the long run (**accounting and business planning factors**) (Sherbakova 2007: 11).
7. It can also help other companies or individual business partners to solve their problems by giving valuable information and so increase its own image in the target country (**know-how reasons**). Russian individuals will also trust and believe more in written contracts with allusion to law, even if their concepts of law differs from our western concepts of law. It is also good to gather systematic pre-knowledge and so create a strong base for further business studies (Hultin 1997: 154).

1.2. A few basic guiding principles of Russian legislation system

According to many books (Aromäki 1998: 67; Hultin 1997: 269), articles of various journals and publications (Taloustaito 7/1999: 42–43; Åslund 1999: 97; Barkhatova 2000: 657–675), before establishment of the regulations of the Tax Codes and further years clarified amendments, one of the most restrictive factors of foreign investments and domestic industry developing possibilities has been variable, arbitrary and complex tax system of the Russian Federation. Today many companies expose that the customs regulations and customs habits, confused legislation not connected with taxation, bureaucracy and authorities are the main problems for the business activities from taxation point of view. By contrast, the taxation and tax legislation has not seen any more to be very important problems for businesses as earlier (Taloustutkimus 2007: 17). On the other hand, it was only about 17 years ago, when the first real changes towards to Russian market economy were taken. In the Soviet Union, all private entrepreneur activities were illegal (Lehtinen 1998: 6, 31–32). Practically this mean, that there were no legal bases for company or other entrepreneur supporting legislation, like private

contract law or property rights connected to production equipment. Under these circumstances, it is obvious that there still are plenty of gaps and inconsistency in many legal and especially practical areas (Aromäki 1998: 54; Vinnitsky 2007). Shaping forms of legal principles, terms, trade manners, official and unofficial elements, used to work within the stage of well-acting economical markets, will take unpredictable time. Especially in civil law areas (according to the Civil Code), which are somehow connected with (private) business activities, practical manners are still partly impermanent, even if a lot of progress has been happened during the last years. There were not known such terms as private corporate or ownership in former ex-socialistic countries, like it is usually understood in western countries, because of lack of legal private business sectors. (Halfina 1977.)

Many legal and practical terms are quite well fixed in and for common use today. On the other hand, there might still be many applying problems for domestic and especially for foreign businessmen while communicating between authorities or local experts. In those circumstances, flexibility, carefulness, good background pre-knowledge of prevailing systems and open discussions between different authorities are the best way to find available case-by-case solutions. In some book references, listed at the end of the thesis, are presenting more about the importance and earlier problems of taxation, like Hultin (1997: 243, 269).

All the main results and contracts are good to put literally down on the paper and so reduce quasi-wisdom, misunderstandings and part of changes in applying practices. But, sometimes it is better not to have any literally made obligations, like in the cases of obligations between main company and subsidiaries being located in Russia (Hultin 1997: 193). Sometimes even documented contracts may lose its importance by changes of federal regulations, higher tax or other higher authorities. Like an example of an article of benefits given by the local authorities, wrote by the Castrén & Snellman in St. Petersburg Times (605/2000: 7) or deeper analyse of the same case in Defensor Legis publication by Lee (4/2001: 717–718).

Taxation problems are very problematic and expensive especially for small and middle size enterprises of which resources are limited or even under dimensioned for such operations. As a middle-conclusion, attitude against legal norms is more practical than in western countries (Lahti 1997: 8; Hultin 1997: 22; Kallonen & Ketola 1996: 116).

Very essential is to embrace an idea of sense of justice prevails and common ways to analyse it inside the Russian Federation (the world of ideas about the prevailing limits of suitable (business) activities, good, allowed, bad or prohibited habits, etc.), because of easier applying of regulations in practice (Kallonen & Ketola 1996: 58–59). It should be noticed that in this sense of justice differ from western, Asian or other foreign worlds of ideas. In that case, it is not possible directly apply them in Russia (Orlov 1996: 5–11; Kallonen & Ketola 1996: 99).

1.3. Scope of the thesis

The main objects of the study are to find out:

- a) The basic construction and systematic of legal sources of the Russian Federation taxes, tax administration and its authorities as well as the levels of tax system,
- b) prevailing federal, regional and local level taxes and most important fees as well as important special tax systems established and influencing directly to business opportunities in the Russian Federation closely connected with prevailing taxes and fees and
- c) find out some main conclusions, how the RF taxation system has been developed and/or improved from the time the Tax Codes started to apply to the year 2007.

Other regional, or even more complex, local level regulations, mostly concerned to applying problems of taxation, have been left out excluding some examples, because of huge amount of different kind of lower level administration rules and applications between the limits given by the Federation or lower level regulations. More important is to know, where and how it is able to find information about taxes or official payments and legal hierarchy of the whole system, what are the responsibilities of the different bodies of tax administration, how start studying and applying Russian taxation. Especially in Russia, hierarchy of laws, regulations, orders, pieces of advice etc. has remarkable importance in practise.

Secondary object of the thesis is to give some basic tax terminology between the brackets, used widely in Russian official sources and taxation literature. English terms are presented inside the original text and immediately after the term the Russian, as well as Finnish equivalents, inside of the brackets (Russian term, Finnish term). Terminology

is collected from both official sources, like from the Tax Codes part 1–2 or official pages of world wide web of the legal bodies of the Russian Federation (The Federal and Regional administrative bodies of the Russian Federation) and from un-official sources like academic publications (Котова & Котов 1999), tax information letters of tax consulting firms (Safonova 2008), booklets of the Constitution of the Russian Federation (Lakimiesliiton kustannus (1994); Жилина 2000) or other presentations of court and tax system (Иванова 2000). Thirdly, it may use as a basic starting-point for extension, more practical Russian tax studies or researches in the next future.

1.4. Structure of the thesis

Basic pre-condition for a study was that there has been some kind of systematic tax presentations of the Russian political, administration and tax authorities as well as tax systems (Remington, Smith & Haspel 1998: 288). Russian taxation is a whole area of business science and that is why, it is impossible to give a clear toolbox to order your taxes in Russia (Aromäki 1998: 30).

The structure of the study starts from basic structures of legal sources, political bodies and authorities related to taxation. On the other words, for example some ideas of private property or other important legal concept of ideas (like property rights established by the Civil Codes) are mentioned in a general level, when required. Those laws and their extracts, which are mentioned inside of the study, are listed in beyond of essential study. Researching taxation can not even think about without any connections to the previous factors, because of taxation can not be totally separated from the activities of the society.

By using those methods mentioned, the research paper is a logical packet through basic knowledge from legal hierarchy, tax administration, tax system, main terminology to the three levels of taxation prevails in the Russia, concentrated to the information given by the Tax Codes. There are used some amendments made after the Tax Codes came in effect in 1998 and in 2001. At the end of the thesis are presented lists of used laws (Appendix A), used extracts (Appendix B) and used tables (Appendic C). Some important addresses and direct internet links of the tax authorities are given in the list of used references.

1.5. Few words about references

At the very first, it have to pay attention about the importance of Russian language skills. The best sources of up-to-date information are naturally presented only in Russian language, excluding short presentations in English. This means that knowledge of basic tax and economical terminology, extracts etc. is highly recommended to learn and know before more intensive studies, researches or applying taxation in practise. All the used basic terms are presented in Russian terminology are taken from the Tax Codes or other official sources to this study. Translations to English and Finnish languages are not official, but they are collected from well-known sources, like from translations of the Russian Constitution or other literature sources made by authorities or experts, by comparing with each other (Ernest & Young 2005; Налоговый кодекс Российской Федерации 2000).

The main sources of the study are the Constitution of the Russian Federation (later C RF), the Tax Code of the RF (Налоговый кодекс Российской Федерации 2000) and a comment of the first part of the Tax Code. Other books, booklets or articles are giving further, deeper information about atmosphere, applying and practises of taxation. There are only few good literal sources available about Russian taxation or other legal areas in foreign languages and most of them found are somehow out of date. During the previous years situation has developed and today there are few good literature sources especially printed in English. I have used mainly official internet sources of Russian administration or other unofficial internet sources of Russian taxation (Cox 2005). Tax forms are also available from ordinary or specialised bookshops from Russia or you can ask them directly for the tax authorities.

Today internet is a remarkable source of basic information for investors. Unfortunately, part of the internet pages are made for advertising purposes of the different solicitor's or consultants' offices than being real, freely available information sources, because of small overall articles, fine headlines or just being short overall presentations prevailing main principles. That kind of advertising internet pages are left out from the list of references and the whole thesis.

But there is lot of good sources, like official pages of Russian Governmental system (The Government of the Russian Federation) in which are presented more information about structure of the administrative and legal systems as well as future strategies. There are some pages concerning more to give previous wider knowledge for investors. On

the other hand, because of huge amount of legal pages in internet, it is very difficult to find fast the right pages, without earlier knowledge or hints.

The other, more time and money spending way might be a some kind of connection directly to Russian legislation registration and tax authorities of Moscow, St. Petersburg, other subjects of Federation or a personal connection with a high deputy of the Federal Assembly, regional or local public deputies, local representatives, authorities, universities and/or other well-known local enterprises. For companies, which usually have better resource abilities, it is recommended to use local information-seekers/researchers and translation offices (like RussianGost) with own tax specialists to find needed requirements of all obligations well-enough. Co-operation with local experts and authorities to get information and negotiate for manners of tax payments is vital all the time.

2. GENERAL CONCEPTS OF RUSSIAN TAXATION

There are presented the basic classifications of administrative levels and main legal Federal tax laws prevailing in Russian Federation (Российская Федерация, Venäjän Federaatio), later described only RF, main bodies of the administration, court and authorities systems. Classification of the types of taxes, administration, or in the other words federalism, (as well as all elements of taxation like tax rates and object of taxation) are created by the Constitution and the Tax Codes to present prevailing system through a reasonable way in all territory of Russian Federation (C RF: 1.5, 1.12; TC RF: 1.12.1). Federalism is one of the leading principles through all regulation, administration and politics in Russia. Second object of this chapter is to give some basic concepts and terms used widely in taxation and tax literature, like terms of the basic participants in taxation process. There are also given some information about other important legal fields, which should be known somehow, before concentrating on taxes. Legal enterprise forms are presented shortly, because of being as an observing target of corporate taxation, without forgetting some tax principles concerning to active individuals (like private property forms used as a base of property taxes). Furthermore, concept of ownership and property are closely connected to regional and local level property taxes. In the end of the chapter there are given a few points of principles about shield of justice and general determines of taxes and fees, before concerning to certain taxes itself.

2.1. Classification of administrative levels

It is able to classify legislation and administration according to sources, objects, methods or levels of them. The three levels of administration are the leading classification according to the Constitution, The Tax Codes, other lower level legislation and literature. The levels are: federal, regional and local (municipal) levels. Other classifications are more used in describing specific details or as information of different analyses like for certain areas of legislation, budget or expenditure calculations or taxes. (More about economical theory, graphics and tables about classification methods of taxes, Акинин, Джаман & Ерасова 2000: 31–36).

The highest, federation level, is the supreme source of all administrative acts, bodies and its effects in the whole Russian territory. Subjects of the Russian Federation

(субъектов Российской Федерации, liittovaltiosubjekti) (usually called just regions or regional level) consists republics, territories, regions, cities of federal importance (Moscow and St. Petersburg), an autonomous region and autonomous areas. This administrative distribution totally includes 83 (2008) (earlier 88 (2005)) subjects of federation in Russia. The subjects of RF are divided into the seven larger federal districts (федеральный округ, federaatiopiiri). Authority of the local (municipal) bodies is limited to the certain area of a city, part of the city or similar local municipal units. Local bodies are independent within the limits of their authority and not a part of governmental bodies like federal and regional bodies of which are operating together in many areas of administrative activities (C RF: 1.5, 1.12, 3.65–66; Hallinnon kehittämiskeskus 1995: 131).

The three levels of taxes is a leading distribution of taxes in the Russian Federation. There are also special tax regimes and special economic zones. Hierarchy of taxation is based on the articles of the Constitution (C RF: 1.12, 3.66) and the Tax Codes (TC RF: 1). Three levels are: federal, regional and local levels of taxes. Federal and regional taxes are collected together (to the federal and regional budgets) and local taxes separately. For estimating and analysing purposes like in budget calculations, federal and regional taxes are usually presented both separately and joined together. Separating of different level of taxes is very important especially for regions and local areas, but also for enterprises to estimate possible burden of taxes etc. Because of the State has tightened its tax policy over the lower levels during the last few years, it is more important to understand the importance of the highest level. This means, that regional and local areas are forced to create new taxes (charges or other official payments) within the limits of their authority given by federal laws and federal decisions or cut their expenditures. This and tightening of federal tax control increase pressure for both lower level budgets to find new ways to collect money or cut their expenditures. This might increase budget deficits in many regions and local places, because of most of the regions are not going to rise their taxes and so try to allure business to their region.

Another important principle is the three powers of the State: administrative, executive and juridical powers. The bodies of important authorities are created through this principle and they have their own limits of authority and duties.

Furthermore, why is it important for foreign or domestic companies (even for individual investors) to know and understand multidimensionality of the Russian State and its administrative levels? The easiest answer is that without knowing those qualities, it is

quite impossible to pre-evaluate possibilities to gather tax advantages or even exemptions from taxes during the negotiating situations as well as administrative requirements and possible threats for special arrangements (St. Petersburg Times 2000: 7).

2.2. Hierarchy of legislation

All legal activities in the territory of the Russian Federation is based on the Constitution. The constitution and the Federal laws are the supreme source of legal regulation (C RF: 4.2, 15.1 and 76.3). If there are some contradiction between the Constitution and the federal laws, the Constitution prevails. Basic rule to solve problems of contradiction between different lower level laws is given by the Constitution (C RF: 76). Lower law may not be in contradiction to higher law (lex superior). Practically, all the Federal level laws and the President's acts are the primary source of legal regulation after the Constitution and main Codes (here especially the Tax and Civil Codes) of the Russian Federation (Hallinnon kehittämiskeskus 1995: 65).

Official sources of juridical information in Russia are (CivilC RF: 3–6,311–312, 421):

1. Obligatory legislation,
2. contracts,
3. dispositive legislation (legislation under free will of its users),
4. fixed habits (business habits etc. – requirement of fixed habits is questionable in some cases, especially in private business sector and fixed habits become before dispositive legislation in the field of obligations regulated by the Civil Codes),
5. analogy of law, natural law, good faith and general principles and
6. literature and juridical practises. Those elements are not really official sources of juridical information, but are applied in practice) (Orlov 1996: 73–75).

Hierarchy of legal system of different level, officially recognised rules in the territory of the RF is presented below. The list is collected from many sources and so it may not be absolutely right in all cases, because of many variations and debate of it. Practically, the most important rules of taxation are bolded in the following list of sources of legislation:

1. The Constitution of the Russian Federation (Конституция Российской Федерации, Venäjän Federation Perustuslaki) (C RF: 1.15.1),
2. the Federative Treaty or the Treaty of Federation and other Federative Treaties (Федеративны и иные договоры, Liittosopimus ja muut liittovaltiolliset/valtioliitto-sopimukset) (C RF: 1.11.3),
3. the Federal constitutional laws (Федеральны конституционны закони, perustuslailliset Federaatiolait) (C RF: 3.76.3),
4. International treaties and conventions (международны договоры и международного права, kansainväliset sopimukset ja konventiot) (C RF 1.15.4; TC RF: 1.7), (like the Double Tax Treaties),
5. the Civil Codes of the Russian Federation (Гражданский Кодекс, Siviililakikokoelma) (CC RF: 3),
6. the Federal laws (Федеральны закон / налог, Federaatio lait / verot), federal laws under joint jurisdiction of the Russian Federation and subjects of the Russian Federation (совместного ведения Российской Федерации и субъектов Российской Федерации, Venäjän Federaation ja Federaation subjektien yhteislainsäädäntö) and the Tax Codes of the Russian Federation (Налоговый Кодекс Российской Федерации, Verokokoelma) (C RF: 1.4.2 and 3.76; TC RF: 1.1,3,6 and 2.12.2),
7. the constitutions, charters and legislation of the subjects of the Russian Federation (C RF: 1.5.1–2 and 3.66; TC RF: 1.1.4),
8. federal decrees (указ, asetus) and resolutions and decisions (указание / решение, ohje / päätös) of the President of the Russian Federation (C RF: 4.90) (some decrees are normative and some are non-normative like executive decrees for governmental bodies),
9. federal regulations of the Government of the Russian Federation, governments of the regions and local Legislative Assemblies (C RF: 1.12, 1.5.2, 6.115 and 8.130–133; TC RF: 1.1.4–5, 1.9.3–7 and 1.12.3–4),

10. acts of federal ministries and civil service departments (TC RF: 1.9.3–7),
11. acts for different fields of activities (TC RF: 1.9.3–7),
12. acts of local (municipal) autonomous representative and executive bodies (according to C RF: 1.12 and TC RF: 1.1.5 and 2.12.4),
13. even acts and applying of local bodies and authorities (according to possibilities to delegate power for lower authorities in practical, applying decisions are given by C RF and TC RF).

As presented above, the absolute hierarchy of the Russian legislation is not completely clear (Hallinon kehittämiskeskus 1995: 97–99; Lehtinen 1998: 29–30, 91–92, 100–101; Orlov: 72–80). For example, the position of the treaties and laws between the Russian Federation and the subjects of the Russian Federation and authority of the lower level acts are not clearly fixed. Also the position and limits of the constitutions of the autonomous regions and other lower level laws of republics and the charters of the territories, regions, cities of federal importance, autonomous regions and areas provided by the Constitution are quite unclear in many practical cases. If there are still gaps in some areas of new federal legislation, the older laws of the Soviet Union might be used to fulfil them. Previous problem has remarkable diminished, because of many new federal laws and president's decrees. The much more used way to repair holes of federal level legislation is, if there are not at least federal level laws prevailing to be able to apply, the President has right to fulfil those lacks of laws by giving temporarily decrees, of which are not allowed to be against the Constitution (Remington et al: 293–295).

System of the taxes and principles are fixed by the Federal laws according to the Constitution (C RF: 3.75.3). Most important federal tax laws are collected into the Tax Codes parts 1–2. More detailed rules and principals are given partly by the Tax Codes and under the other legislation for taxes and charges (TC RF: 1.1). Those other federal laws for taxes and charges are given to specify and give some special rights or obligations for some special tax areas (like the law on foreign investments in the Russian Federation) or to describe more detailed sources of taxes (like value added tax law). Principles of all official payments like different level licence costs, are included in the list of federal, regional and local taxes in Tax Code and are regulated by the laws of each level separately.

Part one of the Tax Code includes classifications for tax participants (taxpayers and authorities), basic tax and accounting methods used in taxation, common time limits, basic obligations and rights of participants, list of allowed main taxes and charges in all levels of taxation and many other smaller points of tax systematic (TC RF: 1.2). On the other hand, the Tax Codes do not give us the absolutely list of all allowed taxes or principles, because in the lower levels (regional and local), it may use their own decisions and applying (delegated from the higher bodies) within the limits of their authority (TC RF: 1.4). This ability to delegate power has used for linking together applying questions of different bodies in different areas, too.

There has also given right for region and local levels to enact their own taxes and charges of which were not created by the federal legislation (by president's decree in 1993) (Orlov 1996: 238). Despite of rules in the newest Tax Codes and principles of shield of justice, which prohibits unlawful taxes and charges - like taxes which are not correctly published according to federal tax laws or are not mentioned in the Tax Codes as a possible form of tax - it is still able for lower levels to enact their own new taxes and fees according to the limits of their authority and within the limits of maximum share of their taxes. For example, after 1.1.2004 the maximum of the 1,5 % land tax for all other use, except for housing and agricultural purposes, is established by the TC RF. As a middle conclusion, the confusion situation of number of taxes has got dramatically better, because of the State has tightened tax limits and has given limited abilities to set new lower levels taxes. The second step of taxation came into force in 1.1. 2001, when the second part of the TC RF started to apply. The First Part of the TC RF came into force partly in 1.9.2000 and partly in 1.1.2001. List of used tax laws and amendments are presented in appendix B.

Other very important, worth mentioning, Federal Codes are the Civil Codes, parts 1–2, which regulates relationships between physical/natural/individual or legal persons. The Tax Codes gives the basic rules for trading, contracts making, legal forms of enterprises, for shield of justice (like shield of a businessman's reputation or image), basic business habits, basic rules for competition, rights to get compensation and other principles for such normal civil actions of everyday life. Furthermore, rules of the Civil Codes are applied directly in practical situation. Former civil legal rule may not be contradict against earlier civil rules, if there is no such possibility given by the Civil Codes (converted *lex posterior*). Contracts or agreements of which limits the use of the Civil Codes, are incompetent. Rights and obligations in civil relationships is the basic distribution of the Civil Codes and the basic juridical civil definitions are widely used in

the regulations under legislation for taxes and charges, too (Hultin 1997: 136–140; Orlov 1996: 72–80).

Land laws are closely connected to the Civil Codes. Properties (like houses or woods) and in some cases land under their feet are owned by the individuals or other legal subjects. Sometimes the land under their feet might be owned by the government or lower level administrative bodies. This is big problem especially in farming and will reduce remarkable investing motivations to the farming sector. It is oblivious that some kind of compromise will come sooner or later. Some politicians and experts are given as an advice to wait until those federal laws are surely enacted. Some of the regions have done so, but in many places like in Moscow region, selling of land has started. Land can also be used as a mortgage for bank loan, which is based by the rules of the Civil Codes. The land question has been a legal and political longstanding deadlock in Russia (Remington et al 1998: 318–319; Orlov 1996: 80, 235–236).

2.3. The system of tax authorities

Basic structure of levels of state administration system, bodies of state and local administration and division of state power into independent legislative, executive and juridical authorities are in key role, when discussing about the tax system (C RF: 1.4,5,10–16; TC RF: 1.9, 3.5.30 and 3.5.36).

The most important administrative bodies and authorities in Russian Federation are:

1. The President of the RF (Президент Российской Федерации, Venäjän Federaation presidentti), which have very wide legislative and executive power and authority. President decrees and decisions are extremely important source of legislation and administrative control in all territory of Russia. The President have powerful veto-right and President Yeltsin's cabinet own invention right to return law bills with amendments back to the Duma for new process. Presidential administration (president's cabinet) takes care of administrative duties as well as background work (execution) for presidential law bills, control, publishing of decrees etc. (C RF: 1.11 and C RF: 4.80–93; Remington 1998: 301–302; The President of Russia).

2. The parliament, which is called the Federal Assembly (Федеральное Собрание, liittokokous), is built on two chambers;
 - a) The State Duma (Государственная Дума, valtion duuma), the lower chamber with 450 deputies, elected by the referendum for a term of four years and
 - b) the Council of the Federation (Совет Федерации, liittoneuvosto), the upper chamber with 166 representative, collected two members from the each subject of the RF (C RF: 5.95.3;).

The both bodies are the part of the highest legislative power in Russia with the President of RF. The President and the both chambers of the Federal Assembly are required to approve law bills before the new law is enacted. Majority of all given votes required to pass each of those bodies and approving time limits of acceptance during the law making processes, duties in the cases of taxation and budgets, like another duties are given by the Constitution (C RF: 5.94–109; Aromäki: 54–55; Hallinnon kehittämiskeskus 1995: 67–68, 73–80; The Council of Federation of the Federal Assembly of the Russian Federation).

3. The Government of the Russian Federation (Правительство Российской Федерации, Venäjän Federaation hallitus), which has the highest executive power with the President of RF. The Government is formed by the Prime Minister, the Council of Ministries and their sub-divisions. Construction of the Government is complex. The Government gives resolutions and instruction for principles and applying problems for taxation or other important areas (C RF: 6.110-117; The Government of the Russian Federation; The Governmental statistics council of the Russian Federation).
4. The Ministries, especially in the case of taxation, the Ministry of Taxation of the Russian Federation (Министерство РФ по налогам и сворам, Venäjän Federaation Vero Ministeriö), the Ministry of Finance of Russian Federation (Министерство Финансов РФ, Venäjän Federaation Rahaministeriö), all the ministries of the subjects of the Federation, other lower level financial bodies and authorities give important acts, recommendations and applying instructions as well as accounting standards and methodical manuals to complete legal regulations of the upper institutions within the authority delegated to them. Bodies of the Ministry of Taxation of the RF and their subdivisions are called tax bodies (TC RF: 1.9.3 and 1.9.6) and the bodies of the Ministry of Finance and their subdivisions are called financial bodies, like the Federal Tax Service and its

subdivisions in the regions. Their functions are to control and supervise the tax legislation with the rights to perform tax audits, suspend bank account transactions, seize property of taxpayers and demand tax documents for taxpayers. The duties of the Accounts Chamber of the RF are focused to control and develop budget issues, indirectly effects to activities of taxpayers. It is also worth mentioning while involved in business matters, economical decisions and instructions of the Ministry of Economics (Министерства Экономки РФ, Venäjän Talousministeriö). Like in the cases of taxation, it can give extra information to define and complete instructions of the other Ministries, for counting of products, work or services in inventory operations (More information about financial bodies from The Ministry of Finance of the Russian Federation; The Accounts Chamber of the Russian Federation).

5. The Federal Council of Customs (Государственный Таможенный Комитет, Valtiollinen Tullikomitea) and their subdivisions. These bodies are called bodies of customs (TC RF: 1.9.4; The Federal Customs Service),
6. Governmental executive, local self-governmental and other lower level executive bodies and authorities of taxes and charges are called collectors of taxes and charges (TC RF: 1.9.5; The Federal and Regional administrative bodies of the Russian Federation).
7. Bodies of the Governmental non-budget funds (Государственный внебюджетных фондов, Valtiolliset budjetinulkoiset sosiaalirahastot) or, in the other words, social funds, because of social tax is collected and paid separately from other taxes to those funds (TC RF: 1.9.7).
8. Bodies of the Governmental Tax Police (налоговой полиции Российской Федерации, Venäjän Federaation veropoliisi) and its regional subdivisions (TC RF: 1.9.8) are called bodies of tax police. The Tax Police control, inspect and investigate fulfilment of taxpayers' duties, tax evasion, illegal and criminal activities involved in taxation, bookkeeping or/and other financial activities (TC RF: 3.5.36). Sometimes it has been doubted that the Tax Police might be used to gain political objects, too.

In practice, as noted beforehand, the lowest, regional and local level authorities are the most important bodies, because of enterprises and individuals have to negotiate with

them and find the right ways to solve their all taxation question. The bodies of other legal areas are quite similar as presented above, excluding possible special authorities required. (Hallinnon kehittämiskeskus 1995: 67–88; Иванова 2000: 18–19).

2.4. The Courts system as a part of tax system

Juridical power is focused only to the courts of the Russian Federation and they are independent from other State or surrounding powers (C RF: 1.10-11, 7.118). Extraordinary courts are forbidden and all the courts are created by the Constitution and constitutional laws (C RF: 7.118.3). Juridical power is practically new part of the State powers, because of during the Soviet Union regime, it was just a part of the political system, but the bases of the system were then created. Today the meaning of independent court system is raising its image with increasing legal problems of private (business) sector and are slowly started to find the new forms of fixed legal practices. Basic system of courts is divided to federal courts, constitutional courts of subjects of federation and justices of the peace of subjects of federation. More detailed classification of the federal courts is presented as follow:

1. **The Constitutional Court of the Russian Federation** (Конституционный Суд РФ, Venäjän Perustuslakituomioistuin) (federative level court), which duty is control constitutionality during the law making process and enacted laws of all levels as a highest juridical body in Russia. This court is formed by 19 judges and it is special court above the other courts. There is usually no remarkable practical meaning of this body for a single enterprise or individual, but for larger matters like land owning question, its decisions might be benefit to take under consideration (Remington et al 1998: 302, 312). On the other hand, the position of applications of the Constitutional Court of the Russian Federation are problematic, because of its rulings are not official source of legislation, but those have significant meaning for decisions making for lower courts. Those applications seldom come to influence to any business opportunities, but in some particular cases it might play an extremely important role in court decision and so influence indirectly to other similar business activities (C RF: 7.125).
2. **The Supreme Court of the Russian Federation** (Верховный Суд РФ, Venäjän Korkein oikeus) (federative level), (federal lower level subdivisions) supreme courts of republics of federation, other regional courts (of subjects of federation)

and district (municipal) courts. There also some special forms of courts (lower level constitutional, administrative and military courts). These all courts are dealing presumably with criminal, civil and administrative as well as some special issues according to their authority given by special federal constitutional laws. Tax questions are usually solved under these normal courts, because of applying Russian inside laws and are dealing with the State bodies, which are presenting the State and are not participating as a civil participant (C RF: 7.126). The possibility to create so called small claims court for small civil and criminal cases to ST. Petersburg has also been under discussion during the spring 2000 (ST. Petersburg times 2000: 3).

3. **The Supreme Court of arbitration of the RF** (Высший Арбитражный Суд РФ, Venäjän Korkein Välimesoikeus), the state arbitration courts including federal arbitration district courts and lower arbitration courts of the subjects of federation (system of state arbitration courts) (C RF: 7.127). From the economical point of view, the arbitration court system is the most important court system from the point of settling disputes of the business activities (Lee 2001: 718). These courts are dealing with business or other private sector economical civil cases or civil cases involved in international business contracts etc. The arbitration courts can come under tax question only in those situations, when the tax authorities are represented as a civil participant of relationship. Practically this is rare and usually all the tax cases are dealing with normal courts (Lee 2001: 720; The Ministry of Justice of the Russian Federation; The Supreme Court of arbitration of the RF).

Between the cases of private enterprises, especially international enterprises, the importance of the **international commercial arbitration**, separated from state arbitration court system, is vital to understand. It is important in private contracts to refer literally and write down to a contract that an expressly international commercial arbitration court is the place, where participants want to solve their possible problems occurred. Like in St. Petersburg, so called the Swedish Arbitration court, is very popular among foreign business partners. If the parties are agreed that a dispute will be solved in such international commercial arbitration court, no one of the state arbitration courts (or other state courts) should consider to the current case. The other party should in those cases, always require transfer the case out to the non-state arbitration court. This is one of the most important rules of Russian laws (Lee 2001: 720).

4. **The office of the Prosecutor General of the Russian Federation** (Прокуратура РФ, Venäjän Yleinen Syyttäjänvirasto) (federative level) and lower level prosecutors. The highest prosecutor is the Prosecutor General of the Russian Federation (Генеральный прокурор РФ, Venäjän ylin syyttäjä), witch duty is to guarantee lower level procurators' independence and impartiality in prosecution system in Russia. The highest prosecutor is also the person through who it is possible to appeal to some higher administrative committees and bodies. These bodies are not very important for enterprises or individuals directly (C RF: 7.129).

Table 1: Federal Courts system in Russian Federation (Качалова & Качалов 2000: 4). The Office of the Prosecutor General has left out of table, because of being more juridical body of authorities.

| System of Federal Courts in Russian Federation | | |
|---|--|---|
| Constitutional Court | Supreme Court | Supreme Arbitration Court |
| | Federal Supreme courts of Republics and other federal courts in subjects of federation | |
| | Federal Districts courts | Federal arbitration courts in districts (10) |
| | Federal Military courts | Arbitration appellate courts (20) |
| | Federal special courts | |
| | | Arbitration courts of the subjects of federation (82) |

Those courts are the courts of first instances, courts of appeal, repeal and control. It is important to notice that all courts above are part of federal court system and are financed by the federal budget. The Ministry of Justice (Министерство юстиции РФ, Venäjän Oikeusministeriö) gives instructions and decisions for courts systematic and develop court methods in practise to deal with and control those activities, without involving in courts independence and decision making processes. There are given special federal constitutional laws of all four courts levels presented above (C RF: 7.118–129; Hallinnon kehittämiskeskus 1995: 88–91, 109–110; more about sub-construction, systematic, terms and duties of courts – Качалова & Качалов 2000)

The decisions of the court system are not official sources of legal regulations in Russia. Despite of that, there is some important practical and guiding sense of those decisions, especially higher level court judgements and instructions for lower level courts and applying practises (Hallinnon kehittämiskeskus (1995): 98–99). It is always risk to rise in a court involved in taxation, because of juridical authorities might have different point of view in these issues than tax authorities. It is also time and money spending process. In most cases, it is more benefit to negotiate with local tax authorities and try to make some kind of agreement with them. It is always the last change rise a case against tax authorities, because of juridical practises involved in economical questions are not yet fixed enough. Practises come to apply generally through higher tax bodies decisions and instructions for lower levels.

2.5. Tax subjects

Tax subjects, taxable persons are divided to natural (физических лиц, luonnollinen henkilö) and juridical persons (юридических лиц, oikeushenkilö) and furthermore, juridical organisations to two subclasses: commercial (profit) and non-commercial (non-profit) organisations in Russia. The commercial forms of organisations or of legal entities (Коммерческие организации, kaupalliset yhtiöt) according to the Civil Code (CivilC RF: 50) are:

1. **Commercial partnerships** (хозяйственные товарищества, henkilöyhtiöt):
 - Open partnership or partnership with unlimited liability (полное товарищество, avoin yhtiö/AY) (CivilC RF: 69–81) and
 - limited partnership or partnership with limited liability (товарищество на вере/коммандитное, kommandiitti-yhtiö/KY) (CivilC RF: 82–86), which are not usual forms of entities participated for international investors or participants.
2. **Companies** (хозяйственные общества, pääoma-yhtiöt):
 - Limited liability company (ограниченной ответственностью (ООО), rajavastuuyhtiö) (CivilC RF: 87–94),
 - additional liability company (дополнительной ответственностью, lisävastuuyhtiö) and
 - open or closed joint stock companies (открытые (ОАО) и закрытые (ЗАО) акционерные, avoin ja suljettu osakeyhtiö) (CivilC RF: 96–104), which are

usually used by foreign investors and participants, especially through joint ventures.

2. **Production co-operatives** (производственные кооперативы, tuotannolliset osuuskunnat).
3. **State and municipal unitary enterprises** (государственные и муниципальные унитарные предприятия, valtiolliset ja kunnalliset yritykset) (CivilC RF: 113–115), which both were important for foreign enterprises as well as investors only while and after privatisation processes, when these enterprises are changing their forms of enterprises to companies and so became open also for foreign investors. In some cases, after privatisation process the state or municipality might left as a one partner of joint venture. This might give some advantages, like good direct relations to the local tax authorities, but, on the other hand, it can restrain of renewals needed in newly privatised companies. Without privatisation of these forms of enterprises, these enterprises are not allowed to have private owners. The property of these firms belongs to the State or municipality and it is allowed to manage and govern by the operational management.

Organisations have an obligatory responsibility to register themselves to the governmental register of entities. They have also to give a document of their organised accounting to the tax bodies and at the same time register themselves as a taxpayer in their permanent operating place inside the territory of Russia. There are some other registration obligations, beforehand the enterprise is legally established (TC RF: 5.14.83). The governmental registration place is presumably the official location of the Russian enterprise (TC RF: 1.11.2). This rule is applied also for foreign enterprises. Possible differences in taxation of non-commercial forms of organisations are left outside of the thesis, because of not being as important or interesting forms of entities from business activities point of view as commercial organisations and natural persons. Generally all forms of legal entities have the same taxation regulations and procedures (Vinnitsky 2007). (More about non-commercial forms of organisations are presented in Залесский & Каллистратова 2000).

Natural person can also be as an independent entrepreneur after being registered to the governmental register of entities and to the register of the local tax body, like all other entities (Lehtinen 1998: 103–111; Акинин et al 2000: 19). Location of a natural person

or an independent entrepreneur is where he/she lives or stays permanently or continuously. Natural person is a resident according to the system of Russian taxation always after being truly stayed at least 183 days during a calendar year in Russia. Both natural and juridical persons are called as a joint term just person in the Tax Code of the RF (TC RF: 1.11.2).

The terms **Russian organisation** and **foreign organisation** are important to understand and separate from each other, because of taxation rates for taxable incomes from organisations partly differ according to the status of organisation. Russian organisations are entities formed and registered accordance with the Russian legislation. Foreign organisations are foreign legal entities and international organisations, their branches and representatives established and incorporated (registered) in the RF (permanent established, resident entities) or companies and corporative bodies with legal personality under the law of foreign states (non-resident entities) (Vinnitsky 2007).

2.6. Tax objects

Tax objects (Объект налогообложения, verotuskohde) are presented in the Tax Codes (TC RF: 4.7.38–40). Basic tax objects are products, work or services and property units (товаров, работ, услуг и имущество, tavara, työsuoritus, palvelu ja omaisuus) or transfer of them. Also benefits in kind or material transfers might be the objects of taxation.

There are some principal privileges for small enterprises in all three levels, but in practise most of those are merely well-meaning ideal declarations and so just recommendations for authorities, because of those rules are not usually connected with tax regulations. Nevertheless there are some noticeable tax privileges, like 1993 presidential decree about certain time-bound exemptions or reduces for profit taxes for small enterprises dealing with food processing, production of consumer goods or medicines etc. privileges may be more formal, like reduced burden of documentation (Barkhatova 2000: 659-660; St. Petersburg Times 2000: 7).

2.7. Concepts of few other basic tax and juridical terms

Before study taxes more separately, it is needed to describe a fundamental characteristic, how a tax is described according to laws and comments on them in

literature. A **tax** (налог / vero), is enacted from the base of the Constitution (C RF: 2.57) and determined by the Tax Code of the Russian Federation:

”Tax is a obligatory, individualistic, uncompensated payment, witch is collected from organizations and physical individuals by using forms of obligatory takeoffs, connected to their property rights, taking care of economical or other activities and assets, for the purposes to ensure subsistence of monetary policy in formulations of the state and municipals.”

Charges or official payments / duties (сборъ, maksu) are using for special purposes like state duties (TC RF: 1.8). Everybody has to pay taxes and charges in Russia according to their ability to pay taxes (C RF: 2.57 and TC RF: 2.19). The limits of tax rates (ставка, verokanta) are regulated by the TC RF.

It is worth remembering that there were no remarkable private property or propriety rights in Russian during the Soviet system. Enterprises, individuals or other juridical or natural persons did not practically owned normal fixed properties like land or houses in west. They just have right to possession or use of them (earlier forms of property in Russia, Halfina 1977: 5–19). It is still important in Russia to understand difference between those terms presented above.

Ownership and property units are one of most useful and future hopes increasing subject of direct taxation, especially in those countries, which exercise wide and open foreign trade policy. Because of nature of fixed property is bound to a certain geographical location, it is easier (bound to local area) and surer (ability to use confiscation methods) subject to gather tax revenues than other more liquid property forms, like intellectual properties. Following terminology is the base for further principles and terms are concerning to systematic order of important property forms prevailing in Russia:

- **Property** (имущество, omaisuus) can be divided to **fixed (immovable) property** (имущество недвижимое, kiinteä omaisuus) (CC RF: 130.1) and **movable property** (имущество движимое, irtain omaisuus). This distribution is not absolutely sure and clear, but gives some kind of tool to systematize property form and taxes combined to them. The most important property taxes in Russia are property tax on individuals as well as same tax on organizations. The tax reforms are changed this concept dramatically. Old fashioned taxes like car and luxurious taxes were disappeared and partly compensated by the property taxes.

- **Real estates** (Недвижимость / Kiinteistö) can be (Civil.C RF: 130) (houses or apartments) objects of property taxation, like properties mentioned above.

Accordingly, **propriety rights** (Право собственности / Omistusoikeus) for private, state and municipal forms of property are ratified by the C RF (C RF: 1.8–9).

2.8. Shield of justice in taxation

Shield of justice against unlawful actions of authorities has been created by the Constitution (C RF: 2.50.2, 2.53, 2.54.1 and 2.55.2).

According to the Russian Constitution, all taxes and charges have to be legally established (C RF: 2.57) and this is confirmed by the Tax Codes (TC RF: 2.12). All the taxes and charges have to be introduced under the procedure introduced by the Tax Code part 1. There is prohibition of using backdated taxes etc. acts in the same article, but despite of that, some laws, acts or applying authorities seems sometimes to do so (Lahti 1997: 8). This was quite a big problem earlier for those, which are somehow involved in business or other long run activities, but the amendments established to limit the power of authorities as well as juridical practice, has succeeded to reduce such operations. This legal right has not been taken very seriously by all authorities and politicians. So anyway, backdated law might be a acceptable and suitable way to solve problems caused by gaps and defects of old legislation. Only way to get ready for this kind of situations, is to observe and foreshadow new law-making processes and try to adapt activities according to them as well as possible (Kallonen & Ketola 1996: 116–117). Despite of that the New Tax Code will make better this unclear situation by presenting fixed times before any legal acts may become an effective, there might still be ability for authorities to give or at least apply backdated decrees and lower level regulations. Possibilities of taxpayers to negotiate with the unlawful acts of authorities in question might be rather low. This means in practise that taxpayers have to seek consolation through methods presented in the Tax Codes or bring a legal action against those authorities in the federal or local court of justice (depending on the level of target tax authorities).

There is also a requirement that all the used laws, enjoying legal force, have to be officially published (C RF: 1.15.3). Federal, regional and local level laws have to be

officially published, for example in one of the best pages from internet, where the new federal laws and acts of the president are listed (about during two weeks after official publishing). All the federal level and some very important lower level laws, acts and decisions etc. are officially published in the magazine called Российская Газета (РГ), like the renewals of new Tax Codes.

Federal, regional and local (municipal) taxes and fees shall include only those types of taxes and fees of which are imposed according to the Tax Code (TC 1.12.2). All the basic elements of taxation are determined by the TC RF part one.

2.9. General accounting elements

Companies are responsible to keep records for their activities in Russia. General accounting practices like double entry and historical cost accounting, LIFO (Лифо) and FIFO (Фифо) are recognized as a part of TC RF and Russian accounting standards (RAS).

Tax reports and declarations (assessments) have to be sent to the tax authorities according to the rules of TC RF. Tax and accounting or reporting periods are also described under the chapters of the TC RF for each tax separately. Online tax calendar is available from world wild web from the home pages of the MT RF. From beginning 1.1.2008, the companies with an average number of staff of over 100, have to send their tax declarations in electronic form during the calendar year (TC RF: 5.13.80.3; Safonova 2008). Taxes have to be paid no later than 28th March according to the same amendments. Foreign companies with permanent establishment have to keep the laws as Russian domestic companies.

2.10. Special tax regimes and economic zones

The special tax regimes are regulated in the section 8.1 by the Tax Code (TC RF: 8.1.26.1–4) and the special economic zones by the federal law on Special Economic Zones, number 116/2005, adopted in 22.7.2005. The special tax regimes include regulations for special procedures to calculate and pay taxes. The single taxation system for agricultural producers, taxation system of single imputed income tax for special activities and production sharing agreement taxation system are left out from the thesis,

because being similar kind of procedures as the simplified taxation system, but are made for different purposes.

The simplified taxation system is applied for organisations and individual businessmen and transition to the simplified system of taxation or return back to the general taxation are voluntary decisions by them (TC RF: 8.1.26.2.346.11). The simplified system practically means that the following taxes are computed and paid as a uniform tax together in the tax period. Objects of taxation are the incomes reduced by the amount of outlays accepted by the TC RF (TC RF: 8.1.26.2.346.16). This uniform tax for organisations includes taxes:

1. on the profit on organisations,
2. on the property of organisations and
3. the unified social tax.

A uniform tax for individual businessmen includes taxes:

1. on the incomes of natural person,
2. on the property and
3. the unified social tax from all incomes regulated by the TC RF.

Both organisations and businessmen are not allowed to be taxpayers of VAT, except for importation of goods to the customs territory of RF. Other taxes regulated have to pay general way. The organisations which are not allowed to apply simplified taxation system are listed in TC RF, like banks, notaries, non-budget funds etc. There are also numeral limits for organisations to be allowed to apply simplified system. If organisation results are not exceeding 11 million roubles during nine months, average number of workers not exceed 100 people, the share of direct participation by other companies not exceed 25% or the value of the balance sheet fixed plus intangible assets of organisation not exceed 100.000.000 roubles, it can apply simplified taxation (TC RF: 8.1.26.2.346.12).

Companies of which are located to the special economic zones or are able to apply special tax regimes can get benefits from tax procedures or tax rates. In simplified tax system, taxpayer can choose one of the allowed privileges: 15% tax on the profit or 6% of the revenues as an unified tax rate ((Investor's Handbook: St.-Petersburg 2007: 13).

3. FEDERAL TAXES AND FEES

Federal taxes and fees (Федеральные налоги и сборы, Federaatio verot ja maksut) are obligatory in the whole territory of the RF. Federal taxes and fees are presented in the chapter 8 and listed in the chapter 1 of the Tax Code of the RF (TC RF: 1.2.13). Main sources of taxable income in commercial enterprises are realised turnover, production costs and profit. These all are widely used in formalisation of Russian taxes on enterprises. According to this principle, the most important federal taxes for organisations or natural persons are value-added tax, personal income tax, unified social tax and profit tax on organisations. Other federal taxes and fees are presented only shortly in this chapter 3 of the thesis. Federal taxes and fees are paid to the federal budget or non-budget social funds. Inheritance and gift taxes are abolished from 1.1.2006.

3.1. Value-added tax (VAT)

Value-Added Tax (Налог на добавленную стоимость – НДС, arvonlisävero), later abbreviate VAT, is one of the key areas of taxes for business activities. VAT is regulated by the part two of the Tax Code of RF (TC RF: 8.21). Federal and regional parts of the VAT are collected together and transfer to the budgets. VAT has been one of the main sources of tax income for the State. The administration of the Federal Tax Service is the tax authority in VAT issues (PricewaterhouseCoopers 2008).

Taxpayers of the VAT are organizations, individual entrepreneurs and persons, who are recognised as taxpayers of the VAT (TC RF: 8.21.143) with connections of importing (importers) of the goods into the custom territory of the RF according to the Customs Code of the RF. Taxpayer is relief from VAT obligations, if the sum of their proceeds are not more than 2 million rubbles during the three calendar month period or who are applying a simplified system of taxation (for small businesses) (Vinnitsky 2007. Taxpayers have to be generally registered with the tax body and separated registration for VAT purposes is not needed (Pricewaterhousecoopers 2008: 60). Anyway foreign organizations have to be generally registered at the location of their permanent establishment by a written application to the tax body in the RF. After that they operate their VAT calculations and payments to the tax authorities as domestic organisations. If the organisation is not registered in Russian territory, but sells items of the VAT, it is

buyer's responsibility (Russian or foreign registered entity), as a tax agent (Налоговые агенты, veroagentti) (TC RF: 2.3.24), in any cases to calculate, withhold and render the amount of the VAT to the budget of Russia (TC RF: 8.21.161; Seppänen & Kallio 2004: 3).

Items or units of the VAT are according to the Tax Code (TC RF: 8.21.146.1):

- a) realisation of sales and/or transfer of goods, works and services or transfer of the rights of ownership / property rights (of which are not included in profit tax calculations as expenses, like depreciations),
- b) performances of , or on the other words, self-supplied constructions,
- c) goods, works or services for own consumption (self-supply) and
- d) imported goods into the customs territory of the RF.

Some transactions or realisation of good, works and services of which are connected to following activities are not seen as an item of the VAT (TC RF: 4.7.39.3):

- a) transactions connected with circulation of currency,
- b) transfers of assets by an organizations to its reorganised successor,
- c) transfer of assets or other property to non-profit organizations of which main activities are not related to business activity,
- d) transfers of assets with investment characters (participants contributions or capital payments of economical companies or withdraws by their owners from such company or if such assets are divided to participants) and/or
- e) transfer of residential premises of the state or municipal houses while privatization,
- f) confiscation or inheritance of property, findings and hiding treasures, etc. more special cases and/or
- g) transfers with federal, regional or local public authorities for social or cultural purposes are left out as an item of VAT (TC RF: 8.21.146.2).

Also the Constitution of the RF prohibit to establish any customs borders, duties or other barriers for transfer of goods, services and financial resources except in special cases (C RF: 3.74).

The place of sales of goods, work or services is described in the Tax Code part two (TC RF: 8.21.147-148). The basic principle is that if the place of sales of a VAT item is supplied and located (but not shipped or transported) or when the transportation or shipment begins or service is physically performed or carried out by the buyer's

activities in the territory of the Russian Federation, it is subject to VAT. There is a board list of special operations of which are not taxable under VAT (TC RF: 8.21.149.1-3) or tax exempts for importing of goods to the Russian territory (TC RF: 8.21.150). The most of those exempts are somehow connected with cultural, medical, healthcare, public service or other special areas of operations (connected with the list above of operations not seen as the items of VAT). If the taxpayer has both taxable and non-taxable operations, it is obligated to keep separated accounting of both operations (TC RF: 8.21.149.4).

The accrual method is the only way to calculate and pay VAT from the beginning of 2006. Cash method was applied up to 31.12.2005, but it was allowed to use for actual payments and the remaining amounts up to 31.12.2007. The tax base of VAT invoice is computed and the input VAT offset is available, when the tax items are:

1. actually received,
2. documented by the properly formed invoice and
3. used for the performance of transactions that are subject to VAT (see VAT items above) (White & Case LLC 2006).

VAT is calculated by subtracting the amount of input VAT from output VAT as calculated in the most western economies, like Finland. If the sales or expenses are borne in foreign currency on the date of sales or on the date, when expenses were actually realised, all of those operations have to be converted to rouble currency according to the exchange rate of the Central Bank of the RF (TC RF: 8.21.153.3).

There are many requirements for the invoice documents, that it shall be accepted as a ground of deduction. Deduction is based on VAT invoice. Subject to deduction is amounts of different rates of VAT paid to budget and presented in the invoice by the vendor (TC RF: 8.21.171–172). It is able to make deduction in full, but not later than one year after, the return or rejection of VAT item has been entered into the account-books. So normally, the taxpayer have right for full recovery of VAT paid. If the invoice does not fulfil all the requirements, an amount of deduction may not be accepted at all. Invoice must include the information regulated by the Tax Code (TC RF: 8.21.169.5–6):

- a) the serial number and date of the invoice,
- b) the name, address and numbers of identification of the taxpayer and buyer,
- c) the number and address of the consignor and consignee,
- d) the number of settlement documents,

- e) the name or description of delivered goods, work or services and units of measurements (if possible),
- f) the delivered quantity or volume under the invoice,
- g) the price without tax or tariff including the tax, per unit of measurement under the contract,
- h) the cost of total amount of delivered goods, work or services without taxes,
- i) the sum of excise tax if an excisable good,
- j) the tax rate,
- k) the amount of VAT according to the effective tax rates charged for buyer,
- l) the total cost of delivered goods, work, services under the invoice plus total amount of taxes,
- m) the country of origin of goods (delivered from outside of the Russian territory),
- n) the number of the cargo customs declaration and
- o) the invoice have to be signed by the head and chief accountant or the authorised person by the organisation.

The tax base is defined by the peculiarities of the sales of VAT items. If the taxpayer applies many tax rates during sales, it is obligated to separate the tax bases of all types of goods, work or services according to different VAT rates. Same types of operations with the same tax rate shall be summarised by this rate (TC RF: 8.21.153). VAT base or on the other words, the taxable amount, is usually the market price (invoiced price) or value of identical taxable item (good, service, work or other VAT item). The VAT base for imported goods is the customs value plus payable customs duty increased by possible payable excise taxes (TC RF: 8.21.160.1). If the customs duty is cancelled by an international treaty of the RF, the amount defined by tax base shall include only the cost and delivery up to the border of goods and possible excise taxes (TC RF: 8.21.160.4).

The standard VAT rate is 18% (from 1.1.2004, earlier 20%) for the sales of goods, works and services, except for those sales of which are regulated to use reduced tax rate of 10% or privileged tax rate of 0 % (TC RF: 8.21.164). Reduced tax rate of 10% is applied for four categories of goods (Vinnitsky 2007; TC RF: 8.21.164.2):

- a) certain important food articles for population, like milk, sugar, salt, meat products, flour etc. (TC RF: 8.21.164.2.1),
- b) certain goods for children, like toys, children clothes and footwear etc. (TC RF: 8.21.164.2.2),

- c) periodical published publications without advertising or erotic nature, like education books (TC RF: 8.21.164.2.3) and
- d) certain Russian or foreign made medical goods, like medical-purpose articles (TC RF: 8.21.164.2.4), but for pharmaceuticals for clinical trials tax rate is standard 18% (CONSECO Press – News 2008).

The privileged, zero-tax rate is applied especially for exported goods, if the required documents are sent to the tax authorities (required documents in different cases are listed in TC RF: 8.21.165), but also for transportation services, provision of certain export-related works and services and for some other special cases, like for sales of certain goods in space industry.

Tax period for all the taxpayers and tax agents will be a quarter beginning at 2008 (Conseco Press – News 2008). The total amount of taxes (output VAT minus input VAT) has to be calculated from each tax period separately per every used tax rates. The positive amount of the tax has to be paid to the budget by the organisation or tax agent at the place of registration with tax authorities. Periodical tax declaration has to submit to the tax authorities no later than the 20th day of the month after tax period (TC RF: 8.21.174). The tax must be paid 20th day of the month following quarter after 1.1.2008. Reimbursement (negative VAT) have to be allocated within three months following the past tax periods towards and against the amount of which has not been taken account during that time, shall send written application for tax authorities. Repayment shall be paid within two weeks from decision of the tax authorities (TC RF: 8.21.176).

It is also important to know more specific taxation rules, it is able to deduct (recoverability) certain more special expenses to input VAT base. For example, input VAT included in credit loses is not recoverability in Russia (Seppänen & Kallio (2004): 4).

3.2. Excise taxes

Excise taxes (Акцизы, valmisteverot) are indirect taxes calculated for the price of a certain product (Котова & Котов 1999: 5). There is given the basic rules for applying excise taxes in the Chapter 22 of the Tax Code of the RF. Taxpayers are quite similarly described, like taxpayers of VAT (TC RF: 8.22.179) and they are seen as taxpayers thought production or importing of excisable goods.

Excisable goods are able to classify for certain categories (TC RF: 8.22.181):

- 1) Alcohol products, ethyl alcohol made of raw materials, alcohol containing liquid form products, alcoholic products (not including certain alcoholic containing goods) and beer. (From 1.1.2008 the tax rate for alcoholic products depends on the being under, up or including of 9% amount of ethyl alcohol by volume in products).
- 2) Tobacco products,
- 3) cars and motorcycles (depending on engine power) and
- 4) fuels (petrol, diesel or motor oil for engines) and distillation oil products.

Tax period is a month. Excise tax rates are established for excisable commodities according to the TC RF (TC RF: 8.22.193). Excise tax rates are given in specific amounts per unit of measurement from the volume or in percents of sum of customs value and the payable customs duty of the excisable good (TC RF: 8.22.191).

3.3. Personal income tax

Taxation of individuals (physical persons) or personal income tax (налога на доходы физических лиц, henkilötulovero) is established in the chapter 23 of the TC RF. Natural persons being residents are obligated to pay income tax from sources received from the RF and outside the RF. Non-residents of the RF are obligated to pay income tax only from incomes received from the RF (TC RF: 8.23.209). Individuals do not have to be registered as taxpayers, except Russian entrepreneurs (foreign nationals are not allowed to be entrepreneurs). The taxpayers are residents and non-residents natural persons (TC RF: 8.23.207). Residency depends upon the number of days the natural person physically stays in the territory of the RF. Foreign natural person is seen as a resident after staying at least 183 days in a calendar year (or more than 183 days from 1.1.2007 during any 12 consecutive months period) in Russia according to indication of his/her foreign passport (counting on days crossed the Russian boarder). This 183 days time limit (6 months rule) is vital to know, because of the rate of personal income tax depends on it. Under 183 days staying, for a non-resident natural person income tax is 30% (TC RF: 8.23.224.3) and from 183 days staying in a calendar year, for a resident, only 13% standard rate of income tax (TC RF: 8.23.224.1). The day of arrival in Russia is not included in, but the day of departure is included in the time limit of 183 days. If the staying days are exactly or very close to the 183 days time limit, there is always a

risk that taxation will be recalculated, if not being accurate enough while summarize staying days per a calendar year (PricewaterhouseCoopers 2008: 57).

Individuals being tax residents of the RF are obligated to pay personal income tax to their worldwide income, except if there is a Double Tax Treaty between the RF and the country of residence of the individual. In those cases the treaty will define the taxation status (tax residency) and possible provisions on the avoidance of taxation in the both countries (Hellevig, Usov & Tiusanen 2005: 30; TC RF: 8.23.232). The documents needed to charge the tax according to and apply a Double Tax Treaty are official confirmation of being the resident of a country with which RF has such double tax treaty, a document (receipt) of received income and official document of tax paid outside the RF given by the tax authorities of the foreign country.

Income tax bases are incomes received by the taxpayer in monetary forms (in cash), benefits in kind or in the forms of material benefits. Subjects of taxation are incomes from employment, independent activities (self-employed), property, property rights, real estate transactions, taxable benefits in kind (like benefit of a company car or accommodation at market value) etc. Tax base have to be separately defined for each type of income for which a different tax rate is established (TC RF: 8.23.210.2; PricewaterhouseCoopers 2008: 57).

The standard, flat tax rate of 13% is applied to all other incomes except for those regulated separately in the TC RF. The other tax rates and objects of them are (TC RF: 8.23.224):

- a) 35% tax rate on value of any winnings and prizes received from competitions, games and other events held with the purpose of advertising goods, works and/or services exceeding 4.000 roubles during a year (White & Case LLC 2006).
- b) 35% amounts of insurance benefits under voluntary insurance agreements concluded less than five years, when payment exceeds the advance paid amounts. Upper limit of annual social tax deduction for individuals under voluntary medical contracts is increased to 50.000 roubles from 1.1.2007 (Rozantseva 2006).

- c) 35% tax rate on material benefit (interest) from rouble-denominated loans exceeding interest rate of three-quarters of the Central Bank of Russia's refinancing rate or from foreign currency denominated loans exceeding interest rate of 9% (TC RF: 8.23.214.2; Vinnitsky 2007).

- d) 9% tax rate on dividend income from companies only to residents of the RF and reduced tax rate from 30% to 15% to non-residents of the RF for dividends received from Russian companies beginning at 1.1.2008 (Lebedeva 2007; PricewaterhouseCoopers 2008: 57). Dividends from foreign companies Russian operations to non-residents still remain 30% tax rate. Income tax of dividends has to be calculated, deducted and transferred by the company decide to pay such dividend (as a tax agent) and the amount of tax to be withheld on dividend payment by a tax officer. The company has to take into consideration possible double tax treaties and deduction of tax rate according to the tax status of shareholders. Shareholders responsibility is to inform their status of taxation to the company within the obligatory time period. If they do not give information within that time, company should apply the higher tax rate of 30% (Rashnikov 2008: 9).

In the cases of income paid to employee, it is employer's duty (as a tax agent) to withhold the applying amount of taxes on that income. The tax period is a calendar year (TC RF: 8.23.216). Taxpayers have to use prevailing personal income tax declaration form and the instructions gave by Ministry of Finance of the RF.

Allowances from personal income taxes can be divided to three categories:

1. **Standard deductions or allowances**, when an individual is allowed to deduct a certain amount from his incomes during fiscal year based on law.

2. **Property-related tax deductions or allowances**, like income from sale of houses or apartments is not taxable income, if those real estates are owned at least three years before the selling moment or the excess of income from the sold real estates not exceed 1.000.000 roubles and for other property not exceed 125.000 roubles (Vinnitsky 2007). Also from incomes from sales of securities after 1.1.2007, it has been ability to deduct documented expenses from securities proceeds (Ganeles 2007).

3. **Social deductions or allowances**, like from 1.1.2008 the social tax deductions for natural persons has been expanded to expenses on voluntary pension and insurance agreements for spouses.

3.4. Unified social tax (UST)

The Unified Social tax (the Contribution, UST) (Единый социальный налог (ЕСН), sosiaalivakuutusmaksu / sosiaalivero) is a way, started as an unified system (earlier separated payments) from 1.1.2001, to present payments to the non-budget social funds. The UST is regulated in the chapter 24 of the TC RF (TC RF: 8.24). The Social Funds are not connected to the administrative budgets and are not controlled by Tax Police or Tax Inspectors (TC RF: 1.9.7). Purpose of the tax is to cover and confirm basic state pension, social welfare and medical care to the citizens. The tax includes the unified social payments to the separated social funds. These all payments are called together as payments of the payroll on wages (salary, gross income of employee) to the Social Funds (or non-budgetary funds) (Фонд оплаты труда (ФОТ), valtiollinen sosiaalirahasto), which includes three funds, where the payments are divided to:

1. the Russian Pension Fund (Пенсионный фонд Российской Федерации (ПФР), eläkevakuutusrahasto),
2. the Social Insurance (Security) Fund of the RF (Фонд социального страхования (ФСС), sosiaalivakuutusrahasto) and
3. the Federal and Local Medical (Health) Insurance Fund (Фонд обязательного медицинского страхования (ФОМС), terveydenhoitorahasto).

From the beginning of 2001, payments to the Social Insurance (Security) Fund of the RF and the Medical (Health) Insurance Funds are combined with payments to the Pension Fund of the RF. At the same time and by the further amendments, the basic total rate of regressive social tax has been decreased as presented in table 2.2.

Employee was earlier obligated to pay 1% of his/her monthly income to the Russian (Un)Employment Fund (Фонд занятости (ФЗН), työttömyys-/työllisyysrahasto), but this payment has been removed by the renewals from 1.1.2001 (Table 2.1) and is covered by transferring 1% from the personal income tax (13%) to the Employment Fund).

Table 2: The standard rates of the Unified Social Tax in different stages of renewals during 1993–2007. The rates of payments to the non-budget funds of the Russian Federation (Шаталов 2000: 19–20, 22–25, 37–39; Titarenko 2007; Vidlund 2005; Налоговый кодекс РФ, часть вторая 2000:160–164; TC RF: 8.24.241.1).

| Renewals of the Unified Social Tax 1993 – 2007 | | | | | |
|---|---------------|---------------|------------------|------------------|------------------|
| Development of the Unified Social Tax rates during 1993 – 2007. | | | | | |
| Development of employer's obligatory payments from employee's annual cross income (salary) to the Social Funds: | | | | | |
| Fund / year: | 1993-1995 | 1996-2000 | 2001-2004 | 2005 | 2006-2007 |
| State Pension Fund / Federal budget | 28,0 % | 28,0 % | 28,0 % | 20,0 % | 20,0 % |
| Social Insurance (Security) Fund of the RF * | 5,4 % | 5,4 % | 4,0 % | 3,2 % | 2,9 % |
| Federal and Local Medical (Health) Insurance Funds | 3,6 % | 3,6 % | 0,2 % + 3,4 % | 0,8 % + 2,0 % | 1,1 % + 2,0 % |
| State Unemployment Fund | 2,0 % | 1,5 % | - | - | - |
| Total Unified Social Tax : | 39,0 % | 38,5 % | 35,6 % | 26,0 % | 26,0 % |

| Development of employee's obligatory payments to the Social Funds | | | | | |
|---|-------|-------|---|---|---|
| State Employment Fund | 1,0 % | 1,0 % | - | - | - |

*If natural person is not employee or not registered as an individual entrepreneur and payment is based on the civil contract, which is legally formed, employer does not have to make payment to the social insurance fund. Personal income tax 13% and other elements of the UST must be paid and report to the tax authorities.

The taxpayers and objects of the UST are determined by the TC RF. Taxable persons (taxpayers) are classified to organisations, individual entrepreneurs and natural persons, when paying for the benefit of other natural persons (payroll on wage or salary), disbursement, bonuses or remuneration (taxable benefits) under the labour contract or under the legal civil contracts in the cases of performance of works, provision of services or copyright contract (generally legal persons). Individual entrepreneurs and lawyers are also seen for the taxpayers for the incomes from their own entrepreneurial or professional activities minus expenses related to their actions (TC RF: 8.24.235–236). Amounts which are not taxable are listed in article 238 of the TC RF. The UST payments under legal civil contracts (not in cases mentioned above) should not be included in the tax base of the UST, but many firms are done so to avoid conflicts with tax authorities (especially with tax audits), who are traditionally applied this differently. Solution to this problem should be regulated by the new amendments beginning of

2008, that fulfilments of civil contract are not included in the base of the UST (Subbotin 2007).

The development and basic scale of the regressive tax rates are presented in table 1.3. There are special, reduced scales lists of the regressive tax rates for employers of agricultural production, patrimonial or family communities and farmer households and separately for lawyers. Information technology (IT) companies with status of resident of a technical-innovation special economic zone are applied the special regressive scales of tax base of 10% tax from 75.000 roubles income, instead of 280.000 roubles income limit incomes from 2007 (Rozantseva 2006). Taxpayers simultaneously classified under several categories of taxpayers (see above) have to pay tax according to the reduced scale of the tax rates on each of those classes (TC RF: 8.24.235.2, 8.24.241.3).

Table 3: Standard scale of the regressive tax rates of the Unified Social Tax in different stages of renewals during 1993–2007 (Шаталов 2000: 19–20, 22–25; Titarenko 2007; Vidlund 2005; Налоговый кодекс РФ, часть вторая 2000:160–164; TC RF: 8.24.241.1).

| Renewals of the Unified Social Tax 1993 – 2007 | | | | |
|--|-----------|-----------|--------------------------------|------------------------|
| Development of the Unified Social Tax regressive scale of tax base during 1993 – 2007. | | | | |
| Development of employer's obligatory payments from private persons cross annual income (salary): | | | | |
| Tax base rubbles / year: | 1993-1995 | 1996-2000 | 2001-2004 | 2005-2007 |
| Under 100 000 roubles | - | - | 35,60 % | - |
| 100 001 to 300 000 roubles | - | - | 35.600 roubles + 20% | - |
| Under 280 000 roubles | - | - | - | 26,00 % |
| 280 001 to under 600 000 roubles | - | - | - | 72.800 roubles + 10,0% |
| 300 001 to 600 000 roubles | - | - | 75.600 roubles + 10% | - |
| Over 600 000 roubles | - | - | 105.600 roubles + 2,0% (5,0%*) | 104.800 roubles + 2,0% |
| Fixed tax base | 39,0 % | 38,5 % | - | - |

*The rate of 5,0% payment was regulated for over 600.000 roubles income in 2001 and decreased -2,0% from 1.1.2002.

Employer has also to pay separately collected occupational (accident) insurance fee of which depends on risk of possible accidents of work. The rate of the insurance fee vary from 0,20% to maximum 0,85% from monthly payroll on wages (salary). The purpose of this mandatory fee is to cover accidents at work and professional diseases.

From the 1.1.2002, regressive mandatory tax payments to the State Pension Fund (federal budget) are divided to 3 parts (% of payment of the State Pension Fund if the yearly incomes are under 280.000 roubles in year 2007 / estimate 2008):

1. to fixed basic part of pension insurance portion (6% / 6%),
2. to pension insurance portion according to the payments to state pension fund during working years (10% / 8%) (rest 14% for employees whose date of birth is 1966 or earlier) and
3. to pension savings portion (only employees whose date of birth is 1967 or later) (4% / 6%) (Titarenko 2007; Vidlund 2005).

Because of the UST tax rate is regressive, the payment portion to the State Pension Fund is not paid at all for incomes over 600.000 roubles (table 2.2). Taxpayers are able to cover that by paying voluntary payments to the pension saving portion, which is able to deduct to the certain maximum limit of amount paid during calendar year. Voluntary pension income is not a base for personal income tax (13%).

Old-age labour and other pensions are paid from those 3 pension portion. As a middle conclusion, practically the state pensions are rather low and many old-age persons might have to gain extra earnings (like growing and selling vegetables etc.) or relations support to cover his/her life standards somehow. Normal pension income is also a base of fixed tax rate personal (individual) income tax (13%).

Tax period is a calendar year and the accounting periods are 3rd, 6th and 9th months of the calendar year (TC RF: 8.24.240). It is employer's duty to calculate from all employees total monthly payroll on wages (salary) and pay calculated amounts of advance social taxes by using separate payment orders to the federal budget and the each funds no later than 15th day of the following month (TC RF: 8.24.243.3). Cumulative calculation differences between months and paid taxes are able to compute and pay advance payments during the accounting periods no later than 15th day of following month. Taxpayer has to send tax declaration documents approved by the Ministry of Finance of the RF no later than 20th of the following month at the end of each accounting period. Tax declaration of the rest months of the tax period have to

send no later than 30th March following calendar year. Other calculation, time limits and procedure regulations are given by the article 243 of the TC RF. Subdivision of the organisations, which have their own balance sheets, have to calculate and pay the UST separately. Taxation procedure and time limits for entrepreneurs differ from the UST calculate and paid under salaries for employees and similar labour and civil contract cases.

3.5. Profit tax on organisations

The profit tax on organisations (налог на прибыль организаций, yrityksen tulovero) is regulated by the chapter 25 of the TC RF. Taxpayers are Russian and foreign organisations (legal entities) for their business actions through permanent representations (residence) or other incomes received from RF. Term residence is tightened to the principle of incorporation, or in other words, registration in Russia (Vinnitsky 2007). The legal forms of organisations (tax subjects) are presented in chapter 2.4.of the thesis.

The permanent representation of a foreign organisation is described an affiliate, representation, department, bureau, an office, agency or any other subdivision or another place of activity through which the organisation regularly performs its business activities in the territory of RF (TC RF: 8.25.306). Important issues, when evaluating to the set up moment of permanent representation of such regularly performance are for example moment of starting to use of mineral or other natural resources (starting excavation processes) or the date of coming into force of the licence to use such natural resources, starting moment of production or

Standard, general profit tax rate for companies is 24%, of which 6,5% is directed to the federal budget and 17,5% to the regional budgets. Regional authorities are able to give tax privileges according to the laws of the subjects of federation up to 4% from their regional portion of profit tax, when the total regional portion is at least 13,5% (TC RF: 8.25.284.1; Vinnitsky 2007). For example, the Saint-Petersburg, the city of federal importance and a subject of the RF, allows several investment incentives for investors like (Sherbakova 2007):

- a) From investment of 150–300 million roubles (6-12 million USD) reduction to regional portion to the profit tax on organisation is 2% (when the total rate is 22%) and to the property tax being total of 1,1%, both given for next 3 years.

- b) Similarly from investment of 300 million to 3 billion roubles (12-120 million USD) reduction to the profit tax is 4% (when the total rate is 20%) and to the property tax of being total 1,1%, both given for next 3 years.
- c) Similarly from investments over 3 billion roubles, when profit tax rate stays in total 20%, but the property tax is totally removed, both given for next 5 years.

The other tax rates of profit tax on organisations and objects of them are (TC RF: 8.25.284):

- a) The withholding tax rate from any kind of incomes (like incomes from royalties or interest) on foreign organisations of which not have permanent establishment (non-residents) in Russia is 20%, except in the other cases described in the TC RF (TC RF: 8.25.284.2).
- b) The tax rate of 10% is applied on incomes in relation to international transportation (traffic) or freighting (use, maintenance, renting, leasing, freighting of ships, aircrafts and other mobile transportation facilities or containers) (TC RF: 8.25.284.2.2).
- c) Income tax from dividends depends on status (residence criteria) of the company affording and company receiving dividend income. Tax rate of 9% on dividend incomes from (paid by) Russian or foreign organisations is applied only for Russian (tax resident) companies and for foreign (non-resident) companies from Russian organisations 15% respectively. According to the prevailing and applicable Double Tax Treaty, the tax rate might be reduced for 5% for foreign companies (Sherbakova 2007: 9; TC RF: 8.25.311). It is duty of the dividend payer company to withhold the profit tax on paid dividends according to the right, prevailing tax rates. According to new amendments of the Tax Code RF (FZ 76/2007), on dividend income of Russian companies from other Russian companies is taxed at 0%, if all the tight criteria required are fulfilled and documented as follow (Lebedeva 2007; Vinnitsky 2007):
 1. The Russian (tax resident) company owns 50% or more of the charter capital (shares) of the company paying dividends and
 2. the value of this equity stage of charter capital is at least 500 million roubles (20 million USD) and has been owned for at least 365 days.
- d) The tax rate of 15% on interest income on state or municipal securities, expect in the cases of interest income on state or municipal bonds floated before

20.1.1997 or on bonds of the state currency bond loans of 1999 and profits derived from the performance of an activity involved in discharge of functions of the Central Bank of RF, the applied tax rate is 0%. Tax rate of 9% is applied for interest income on state or municipal securities issued for a period not less than three years before 1.1.2007 or on mortgage-packed securities issued before 1.1.2007 TC RF: 8.25.284.4–5)

The taxable earned income value (the tax base of earned profit of an organisation) (TC RF: 8.25.247) is calculated from the sum of business incomes from ordinary sales of goods, work, services, own production or property rights (TC RF: 8.25.248–249) and other non-sales (TC RF: 8.25.250) or extraordinary incomes are deducted expenses achieved through the business activities or other extraordinary expenses (TC RF: 8.25.250–269).

As well as incomes included in calculating the tax base are classified in TC RF (TC RF: 8.25.248), there is determined a closed list of incomes that are not seen to be an income for profit tax purposes (TC RF: 8.25.251), like property or non-property rights with monetary value received in the form of contributions to the equity stake (TC RF: 8.25.251.3).

Classification of deductible, economically justified expenses related closely to the business activities carried on in earning income is presented in TC RF (TC RF: 8.25.252). The expenses are subdivided according to their nature, conditions under they are incurred and the areas of activity of taxpayer. All foreign currency expenses have to be expressed in roubles and deductible justified expenses have to be able to prove through documentation (and through ordered accounting procedures). Deductible expenses associated with production or sales shall include (TC RF: 8.25.253.1):

- a) the expenses connected closely with the production (manufacture), storage, delivery or sales of goods, work, services or property rights (like materials, labour, the sum of UST, depreciations, electricity etc.),
- b) the expenses from the maintenance, operation, repair, technical serving and keep in up-to-date condition of fixed or other assets,
- c) the expenses for the development of natural resources,
- d) the research and development expenses,
- e) the obligatory and voluntary insurance expenses and
- f) the other expenses closely related to production or sales.

Expenses have also be subdivided (TC RF: 8.25.253.2) into material (like raw-materials, valuation of recyclable waste) (TC RF: 8.25.254), labour payments (like paid UST and insurance fee) (TC RF: 8.25.255), amounts of amortisation charged (being amortisable asset if service life is more than 12 months and historical value over 10.000 roubles) (TC RF: 8.25.256–259) and other expenses. Amortisable assets are divided into ten amortisation groups according to the useful life time from at least one year to over 30 years categories. When calculating amortisation (depreciation) monthly values for records, the taxpayer is able to use linear (have to use for buildings, installations and transmitters according to categories eight to ten) or non-linear method from the next month following the month in which asset was bought to reducible use. The formulas of the both methods are given by the TC RF (TC RF: 8.25.259.4–5). Taxpayers with aggressive environment might have able to apply a special amortisation coefficient with normal amortisation. Non-deductible expense types are expenses that are not documented and economically justified or expenses listed and mentioned not to be deductible (TC RF: 8.25.270). The procedure of determining the amount of production or sale of goods expenses divided to direct and indirect expenses is allowed by the TC RF (TC RF: 8.25.318).

Carry forward of losses is usable for 10 years following the period in witch the loss was made without limitations from 1.1.2007. General limitation for overpaid taxes and fees is that those are able to deduct or refund during the previous three years (Ganeles 2008): 4; TC RF: 8.25.283).

Generally interest payments are deductible from organizations income, but a resident taxpayer or a foreign legal entity with permanent establishment has to pay attention on the restrictions stated by the TC RF in accordance with international practice. Only the limited sum of interest expenses (interest rate on similar loans in market) could be deducted by the Russian borrower and the sum exceeds of this is seen to be a dividend income for foreign company, not interest income, if (TC RF: 8.25.269; Vinnitsky 2007):

- a) the interest paid by the company diverge from the average interest rate on similar loans more than 20% or
- b) the thin capitalization rules are applied. If the interest is paid by a local company to a non-resident (foreign) company under conditions of foreign company directly or indirectly owns over 20% of the charter capital of the Russian debtor-company or the amount of controlled debt is more than three times higher than difference between the sum of assets and the amount of liabilities of the Russian debtor-company.

Tax period is a calendar year (TC RF: 8.25.285.1) and accounting (reporting) periods are the similar periods as regulated for the UST earlier. Profit tax on organisations has to be paid like the UST through advance payments quarterly during a calendar year prior to 28th of March of the following year (TC RF: 8.25.287–289).

3.6. Tax on the extraction of mineral resources

The mineral resource recovery tax, or on the other words, the tax on extraction of commercial minerals (Налог на добычу полезных ископаемых, *mineraaliraaka-aineen tuotantovero*) is regulated in chapter 26 of the TC RF part two (TC RF: 8.26.). Tax payers are organisations and individual entrepreneurs registered for users of mineral resources recovery tax (TC RF: 8.26.334–335). Taxpayers have to be registered at the territory of the subject(s) of the RF, where the tract of sub-soil is located within 30 days after the moment of state sub-soil use licence registration. Licences are issued by the federal authorities of the RF: offshore reserves by the Government and reserves in other locations by the Ministry for Natural Resources. Licences are sold through auctions (earlier also through tenders). Licences of rights to use a sub-soil plot are permanent and in principle non-transferable. For example, the licences for gas production are usually granted for 20 years and combined licences for 25 years, including 5 years geological exploration. Principally, licenses are available for Russian and foreign companies, but auctions participation might be restricted by the respective terms and conditions of national security. (Picton-Turbervill, Geoffrey & Pashchenko 2007: 4–6.)

Tax basis are an output of mineral resource industry, of quarried mineral raw materials from sub-soil or of raw materials by means of processing technologies from sub-soil, on or outside (rented from foreign states or under an international treaty) of the territory of RF and an output from recovery production waste (TC RF: 8.26.336–337). The types of mineral resources are listed in TC RF (TC RF: 8.26.337.2). The tax is collected from every recovered mineral resource or useful mineral component separately.

The tax base is calculated from the value of recovered mineral resource or determined from the quantity in kind of accompanying gas and combustible natural gas from all types hydrocarbon raw material deposits (TC RF: 8.26.338). Regulations to determine tax base according to the quantity in weight or in volume units of gas and natural gas or to calculate the value on the basis of taxpayer's selling prices or rated values of other

mineral resources, are determined by the TC RF (TC RF: 8.26.339–340). Tax rates are varying from 0% of industrial water to 17,5% of extracted gas condensation (TC RF: 8.26.342). Tax period is a calendar month. Tax has to be paid at the latest of 25th day of the following tax period (next month) according to the amount calculated from extracted results (TC RF: 8.26.344).

In this context, it is natural to very shortly present levies for use of fauna and aquatic resources (сборы за пользование объектами животного мира и за пользование объектами водных биологических ресурсов, luonnonvararesurssien käyttövero) established by the TC RF (TC RF: 8.25.1). Taxpayers are organisation, individual persons or entrepreneurs for licence right to use natural (fauna) resources in the territory of RF. The rates of the levies are determined in roubles per the name of an item of fauna or in roubles per one tonne of an item of aquatic biological resource (TC RF: 8.25.1.333.3).

3.7. Water tax

The water Tax (Водный налог, vesivero / veden käyttövero) (TC RF: 8.25.2.) is collected from special types of use and source of water resources. Taxpayers are organisations or individual persons for special operations of use of water. Those special types of usage are described as use for water area or withdrawal of water in certain cases, hydropower purposes or timber floating in rafts and booms. Normal use, use for public good, agricultural, shipping, fishing or other non-specific use of water is not taxable under the Tax Code of the RF (TC RF: 8.25.2.333.9).

Tax period is a quarter. The fixed tax rates are varying and are set according to economic region (according to the named river, lake, the territorial or internal sea basin or economic area) (TC RF: 8.25.2.333.12). It is vital to notice, that the water tax is a federal tax and so the regions are not able to provide or set any additional regulations, even if taxes are varying according to the economic region.

3.8. State duties

Taxpayers of the State duties are organisations and physical persons (TC RF: 8.25.3.333.17). State duties are collected, when organisations or physical persons are

referred or applied to State, region, local or other officials, legally established bodies and authorities of the RF, in accordance with in relations with legally significant acts (except performed by consular institutions of the RF) or for the purpose to get copies or duplicates of documents with legally significant acts (TC RF: 8.25.3.333.16). The rates of payments of applying such legal acts (like registration of organisations or entrepreneurs, juridical acts, licence fees etc.) are presented under the chapter of the state duties (tax rates for different kind of acts according to the TC RF: 8.25.3.333.19–33). From business point of view, here are presented only a few examples of state duties like:

- 2.000 roubles for state registration of legal entity,
- 60.000 roubles for foreign company subdivisions or branches established on the Russian territory and
- 100 roubles for registration of a foreign citizen at his residence in Russia.

3.9. Customs duties

Customs duties are established by the Customs Code of Russian Federation. The Federal Customs Service (Федеральная Таможенная служба, Venäjän tullilaitos) is a federal authorised executive authority and its duty is to control legal issues of customs. It is directed and managed by the Government of the RF. Customs duties were transferred from TC RF totally to be regulated by the CustomsC RF from 1.1.2005. The base of customs duty is the customs value of good or its quantity. Exemptions are imported equipments for asset to use of production or similar purposes.

4. REGIONAL TAXES

Regional taxes (Региональные налоги и сборы, alueelliset verot ja maksut) are presented in the chapter 9 and listed in the chapter 1 of the Tax Code of the RF (TC RF: 1.2.14). Regional taxes are obligatory according to the TC RF and by the laws of the subjects of the RF (TC RF: 9.27.356). The legislative bodies of the subject of the RF are able to enact regional laws of allowed regional taxes and fees within the limits of their authorities (regulations for tax rates, procedure special privileges and terms of the payments) given by the TC RF.

4.1. Property tax on organisations

Property tax on organisations (налог на имущество организаций, yhtiöiden omaisuusvero) also called corporate property tax or tax on the assets of organisations, is one of the most important regional taxes (TC RF: 9.30.372). Organisations recognised as taxpayers are (TC RF: 9.30.373–374):

1. Russian organisations (immovable and movable property),
2. the foreign organisations with a permanent establishment (immovable and movable property) and
3. the foreign organisations owning immovable property located in the territory of the RF.

The taxable property has to be recorded on the balance sheet as fixed assets items through bookkeeping procedure. Land plots, other water or another natural resources and the property of the federal executive governmental bodies qualified for military service, defence, security, law and order are not objects of the property tax in the RF. There is also given property tax relieved privileges for religious, public, scientific centres etc. organisations (TC RF: 9.30.381).

The maximum tax rate of the property tax on organizations shall not be over 2,2 %. Differentiated tax rates are allowed if it is depending on category of taxpayer and/or property (TC RF: 9.30.380). It is calculated from annual average value of property (initial value minus value of the accumulated depreciations) booked on the balance sheet according to the accounting policy of Russian or foreign organisations with a permanent establishment at the end of each accounting period. Foreign organisations

owning immovable property without a permanent establishment have to calculate their property tax from inventory (the stock-taking) value of each property item at the place of such item within ten days of valuation or re-valuation such item and inform the tax bodies. Tax period is a calendar year and accounting period is a quarter year (3rd, 6th and 9th months of the calendar year) (TC RF: 9.30.379). Regional legislative body is not allowed to make any changes for established periods by the TC RF. The amount of advance tax payment of the property tax on organisations is periodical assessed tax base multiplied as one quarter of the applicable valid yearly tax rate. The tax has to be paid in advance according to the applicable laws of the Russian region (TC RF: 9.30.383.1). Periodical tax calculations should be sent no later than 30 days after the end of the each accounting period and yearly tax return no later than March 30th of the following calendar year (TC RF: 9.30.386).

4.2. Transport tax

Transport tax (Транспортный налог, kuljetusvero) is established and put into force by the Tax Code (TC RF: 9.28.356) and by the laws of the subjects of the RF. It is obligatory payment on the territory of the corresponding subject. The Tax Code gives the following limits for the bodies of the subject of RF (TC RF: 9.28.356):

- a) the rates of transport tax (listed by the TC RF: 9.28.361),
- b) the procedure for calculating the tax (TC RF: 9.28.362),
- c) the time limits for paying the tax and
- d) the procedure form of required reports (tax declaration) (TC RF: 9.28.363).

The rates of transport tax are set by the Tax Code RF depending on the engine horsepower, the gross carrying capacity of the considered transportation facility or the unit of the vehicle type (the tax base, TC RF: 9.28.359). The subjects of the RF are able to set no more than five times over or lower level rates and offer special tax privileges when establishing the tax in their own territory. The tax ground for those kinds of privileges has to be provided by the laws of the subjects of the RF.

Transport tax objects are described in the Tax Code (TC RF: 9.28.358.1). Taxation object are automobiles, motorcycles, buses, airplanes and other self-powered machines registered by the way of the legislation of the RF. Non-taxable machines (tax objects) are not using or use only limited motor power or are used for special purposes like

machines used for the transportation of state bodies, agricultural works, medical or military services, catching vessels etc. (TC RF: 9.28.358.2).

Tax payer is a natural person or organization. Natural person who have a named warrant for the right of possession and disposal of such transportation facility (transport facility owner) and which is registered according to the Tax Code, has recognised as a tax payer (TC RF: 9.28.357). The facility has to be registered at the place of tax payers' residence by notifying to the tax bodies of state registration. The tax body shall calculate and notify on the sum of the tax for natural tax person not later than 1st of June of the current tax period (year). The sum of the tax shall be calculated by the tax bodies for natural persons but organisations have to calculate the sum of the tax by themselves and send the tax declaration to the same tax body like natural persons. The sum shall be calculated from full months and from the whole time the facility has been in the state registration (TC RF: 9.28.362). Tax period is a calendar year (TC RF: 9.28.360).

4.3. Gambling industry tax

Gambling business tax (Налог на игорный бизнес, pelivero) is established and put into force by the Tax Code (TC RF: 9.29) and by the laws of the subjects of the RF. Taxpayers, the organisers of a gambling facility, are organizations or individual entrepreneurs acting in the field of gambling business. There are listed many terms with exact definition used in gambling in Tax Code (TC RF: 9.29.364), of which are used as the tax basis or which are describing the nature of gambling. Nature of gambling business is to gain incomes from conducting games of change and/or betting, which are not related to the sale of goods, works or services.

Tax bases, objects of gambling items are listed in the Tax Code RF as follow (TC RF: 9.29.366):

- a) a gambling table,
- b) a gambling machine,
- c) a totalizator box-office and
- d) a bookmaker office box-office.

The tax period is a calendar month (TC RF: 9.29.368). The amount of the tax payment in rubbles are set for each gambling item separately from 1.500 to 125.000 roubles (TC RF: 9.29.369), but the tax payment vary depending on has the Russian region enacted

the gambling business tax law according to the limits given by the TC RF. If the region has not established such tax law, the limits of the maximum amounts of gambling taxes for such items will be five times smaller than in previous case. Taxpayer has to be registered at the place of the taxpayer's registration for tax authorities two days prior starting to install gambling items.

Taxpayer has also to pay licence payments of the organisation and maintenance of totalizators and gambling establishments (state duty) as follow (TC RF: 8.25.3.333.33.72):

- a) for application of a gambling licence 300 roubles,
- b) for providing a allowed licence 3.000 roubles or
- c) for issuing a replacement document of a licence 1.000 roubles.

Notice that the state duties are not a part of regional taxes. The licence payments are focused to the federal budget.

4. LOCAL TAXES AND FEES

Local taxes and fees (местные налоги и сборы, paikalliset verot ja maksut) are established and collected within the limits of federal and regional laws and acts. Local taxes are presented in the chapter 10 and listed in the chapter 1 of the Tax Code of the RF (TC RF: 1.2.15). Municipal taxes and fees are also collected separately from the federal and regional taxes and fees. The cities of federal importance, Moscow and Saint Petersburg, are regulated by the regional bodies in cities. Advertising tax has been abolished from 1.1.2005.

The real estate tax on individuals is postponed until 2011, because of technical reasons of development of a register of real estate assets and a system of mass valuation of real estates. The tax base is planned to be determined from the approximated market prices of real estates. Total tax burden on individuals is planned not to be increased (Safonova 2008).

5.1. Land tax

Land tax (земельный налог, maan käyttövero), replace the earlier land fee in the cases, when the land tax is set by a local law. Land usage is chargeable by the forms of payments of land-value tax and in some cases, as land rent fee according to the Tax Code part 2 (TC RF: 10.31) from 1st January 2006 and the municipal (local) acts and laws, except regional bodies of the cities of federal importance, Moscow and Saint-Petersburg.

The maximum rate of land tax is 0,3 % for plots of land for agricultural and 0,1% for housing (residential) use (TC RF: 10.394.1.1; White & Case LLC 2006): 2) and 1,5 % for other plots of land (TC RF: 394.1.2). The taxable amount of land is based on the cadastre value (Land Evaluation Registry) of a land plot. Cadastre districts are classified according to the federal classification. The Federal Real Estate Cadastre Agency has executive power for issues of state property management, state cadastral valuation and state monitoring of lands, land-utilisation and other duties connected with land and real estates. The agency operates under the jurisdiction of Ministry of Justice of the RF (the Federal Real Estate Cadastre Agency). For example in Moscow the land taxes was set according to the maximum rates in 2005, but in St. Petersburg tax was set for

agricultural use 0,004% (2006) and for housing use 0,042% (White & Case LLC 2006): 2). In special economic zones, land tax might be lower, even 0%, like planned to be in two technological implementation zones in Saint Petersburg (completed during 2008) (Investor's Handbook Saint-Petersburg 2006: 34).

At the end of handling land issues, it is vital to clarify a few basic facts of rights of land plots ownership. Land plots of which are undergone government cadastral registration process, are able to be objects of a sale and purchase agreements. Foreign citizens, foreign legal entities or Russian companies with over 50% foreign authorised capital are not allowed to acquisition of land plots on boarder territories or located on other special territories. Foreign citizens and legal entities are also able to hold only leasehold rights to agricultural land plots. On the other cases, individuals and legal entities are able to buy and own land property. If the land plots usage is not determined according to the line of payer's purpose, the determination of that property has to be changed by using rededication proceedings to right purpose. Classified purposes for land plots are forestry, agricultural, reserves, nature and forest recreation reserves, water area, settlements and industry lands. (Picton-Turbervill et al 2007: 6, 8.)

5.2. Property tax on individual persons

The tax on property of individual persons (налог на имущество физических лиц, luonnollisten henkilöiden omaisuusvero) is regulated by the Federal law and municipal legislation. The tax is collected to the local budget according to where the property is registered. The tax rate is established by the federal authorities and tax is paid annually from its inventory value. For example in Saint-Petersburg property tax on physical entities from value of houses, apartments and other structures was established for resident persons from 0,1% to 0,3% and for non-resident persons from 0,1% to 2% (Investor's Handbook: St.-Petersburg 2007: 13).

6. CONCLUSIONS

A leading conclusion of the main object of the thesis is that, even if the tax system of the Russian Federation has traditionally been quite complex, it is possible to handle properly even by western businessmen. From the taxation point of view, huge progress has been made during the last 8 years. The legal base for business activities is already created and amount of taxes, as well as tax rates are reasonable. Tax rates are rather low for both individuals and entities. Consumer and business-to-business markets are rapidly growing, especially through increasing public and private spending.

After understanding the basis of the tax system, it is easier to understand fine-grained, more special issues. Especially for small- and middle-size foreign enterprises, with rather limited resources, it is vital to realise all the possible threats and possibilities of the tax system (like a possible tax relief given by local tax bodies according to the federal and local laws) and spend enough time for pre-studies of the Russian tax system (as well as cultural habits, language etc.). It is also important to use local, well- and widely-known tax and accounting experts to avoid taxation problems, because they usually have the best connections and relationships to the important authorities. On the other hand, it is also essential in Russia that the higher directors of enterprises pay attention to taxation and are willing to keep connections to the tax bodies, because of higher authority to negotiate. That is why, it is absolutely essential to know somehow Russian legal, administrative and juridical system by the foreign partners, even if the real bookkeeping etc. duties will be done by local employed head accountant, accounting manager and/or outsourced expert(s).

The administrative reforms during Putin's era, implicate that the State is taking more control over the lower levels and through this way try to reduce and unify lower levels varying actions. This is absolutely a positive sign for investors and all individuals involved with business activities given by the State, but it also requires well-functioning lower level actions as well as tightening more the protection of legal business activities.

From the future point of view, development of taxation and tax policy of the RF shall rise up a few very interesting questions. Almost half of taxes are abolished and tax rates are systematically decreased during 2000 – 2008. The flat rate of income tax is lowest in the Europe. This might increase pressure for higher tax rates or to establish new taxes and fees later in the situations, if the market price of oil, as well as revenues from other

natural resources would decline. Greater amount in roubles from taxes and fees are actually collected as a result of decreased tax rates. This is good direction at this stage of taxation development process to be more encouraging to legalize business activities and limit the grey sector economy.

Even if the limitations of powers of lower level authorities and increased shield of justice, the applying and decisions of those bodies might be unpredictable especially, when the business plans are constructed mainly from the basis of personal relationships. The important fields of businesses might be under special consideration in the Russian Federation, while willingness to protect own production or other businesses through national tax and security policy, especially in the fields of extraction of minerals, gas, oil deposits or using of land plots.

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Appendix 1: List of used extracts.

| | |
|-------------|---|
| CivilC RF | The Civil Codes of The Russian Federation. Гражданский Кодекс Российской Федерации (ГК РФ). Venäjän Federaation Siviililaki kokoelma. |
| CustomsC RF | The Customs Code of the Russian Federation, |
| C RF | The Constitution of the Russian Federation. Конституция Российской Федерации (КРФ). Venäjän Federaation Perustuslaki. |
| FL | Federal law. Федеральный Закон. (ФЗ). Federaatio laki. |
| LC RF | The Land Code of the Russian Federation. Земельный Кодекс Российской Федерации. Venäjän Federaation maa oikeus. |
| MF RF | The Ministry of Finance of Russian Federation. Министрева Финансов Российской Федератции. Venäjän Federaation Rahaministeriö. |
| M TC | The Ministry of Taxation (Taxes and Charges) of the Russian Federation. Министрева Российской Федерации по Налогам и Сворам (МНС). Venäjän Federaation Vero (vero ja maksu) Ministeriö. |
| TC RF | The Tax Codes of the Russian Federation. Налоговый Кодекс Российской Федерации (НК РФ). Venäjän Federaation Verolakikokoelma. |
| UST | The Unified Social tax (or the Contribution). Единый социальный налог (ЕСН). Sosiaalivakuutusmaksu / sosiaalivero. |
| VAT | Value-Added Tax. налог на добавленную стоимость (НДС). Arvonlisävero (ALV). |

Appendix 2: List of used laws and main amendment.

No. 146/1998 – Φ3/FZ of July 31, 1998. Part One of the TC of the RF. Came into force 1.1.1999.

No. 117/2000 – Φ3/FZ of August 5, 2000. Part Two of the TC RF. Came into force 1.1.2001.

No. 136/2001 - Φ3/FZ of October 25, 2001. The Land Code of the RF.

No. 117/2003 - Φ3/FZ of July 7, 2003. Amendments established to the Value-added tax rates. Came into force 1.1.2004.

No. 83/2004 - Φ3/FZ of July 28, 2004. Amendment established the Chapter 25.2 of the Part Two of the TC RF, taxation of water (water tax).

No. 127/2004 - Φ3/FZ of November 2, 2004. Amendments established new Chapter 25.3 of the TC RF, State duties (State fees).

No. 139/2004 - Φ3/FZ of November 11, 2004. Amendments established new Chapter 33.1, Customs fees to the CustomsC of the RF.

No. 141/2004 - Φ3/FZ of November 29, 2004. Amendments established new Section 10, Local taxes and Chapter 10 of the TC RF, Land tax.

No. 116/2005 - Φ3/FZ of July 22, 2005. Federal law on Special Economic Zones.

No.76/2007 - Φ3/FZ of May 16, 2007. Amendments established to the Chapters 23 and 25 of the Part Two of the TC RF, taxation of dividends and establishment of new excise rates. Law came into effect from 1.1.2008.

No. 257/2007 - Φ3/FZ of November 8, 2007. Amendments to the LC RF.

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