AN OVERVIEW OF NORMATIVE DOCUMENTS ON TAXATION ISSUES FOR JANUARY–FEBRUARY 2015

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Over the period under consideration, Russia continued to be faced with uncertainty in the sphere of financial policy. The anti-crisis package put forth by the RF Government was the focus of attention.

By Directive of the RF Government of 27 January 2015, No 98-r the Plan of top priority measures designed to ensure sustainable economic development and social stability in 2015 was approved. As outlined in the Plan's general statement, it is intended to implement over the period 2015–2016 a set of measures aimed at speeding up structural changes in the Russian economy, stabilizing the operation of system-forming organization in its key sectors, maintaining a well-balanced labor market, bringing down the inflation rate and softening the effects of surging prices for socially significant goods and services for low-income families, and achieving a positive economic growth rate and macroeconomic stability in the medium-term perspective. It is planned to postpone the launch of long-term investment projects, while at the same time to continue the allocation of funds to government social obligations, state defense, support of agriculture, and the fulfillment of Russia's international obligations. Budgetary investment will be focused on completing current projects, while the implementation of some new projects will be delayed. Spending on the operation of government bodies will be lowered, including by reducing the financing of enhanced comfort services.

The suggested measures have become the focus of attention on the part of politicians, industrialists, and the expert community. They are being discussed, and their opponents by no means always agree with their authors.

The RF Government's Plan is based on the belief that the gradual stabilization of the global raw materials markets and measures to be taken in cooperation with the Bank of Russia will eventually normalize the situation in the foreign exchange market and create adequate conditions for considerably reducing nominal interest rates and increasing loan affordability. Until then, it will be necessary to render financial support to banks with state stakes and system-forming enterprises. Thus, it is evident that the government is willing to wait out the period of plummeting hydrocarbon prices without a major social crisis. However, as far as this system of measures is concerned, we do not see any intention on the part of the authorities to undertake any serious structural transformations in the economy.

The anti-recession program consists of *several blocks*.

Among the declared initiatives comprising the block of **stabilization measures** there is the support of state bank through mobilization of all available resources: budget allocations, the funds of the Deposit Insurance Agency (DIA), the National Welfare Fund (NWF)[1]. Out of the total sum of Rb 2.332 trillion allocated to the plan implementation, Rb 1 trillion is allocated by the DIA to ensure proper capitalization of banks. In addition, banks will also receive Rb 550bn from the NWF (Rb 300bn will go to VEB, and Rb 250bn – to other Russian banks)[2].

It is planned to increase, over the period 2015–2017, the volume of RF government guarantees to back the credits and bond loans issued to legal entities specially selected in accordance with the в procedure established by the RF Government, the purpose of lending being to provide funding for the implementation of projects or to achieve other goals set by the RF Government, including the restructuring of outstanding debt[3].

Among the top priorities there is the softening of financial responsibility imposed for inefficient spending of funds received from the budget by parties to government purchase contracts, as well as postponement for the use of a bank guarantee issued to a supplier participating in government purchase transactions. It is intended to establish the conditions and

1 The amount of assets held by Russian banks increased to Rb 78 trillion, see lenta.ru/news/2015/02/13/asset777 of 13 February 2015. Since early 2014, the amount of reserves had increased by Rb 1.2 trillion (or by 42.2%). A year earlier, over the corresponding period, reserves increased by Rb 411bn (or by 16.8%). Increasing reserves are manifest of the worsening credit portfolio qiality. The total amount of loans issued by banks to their clients was Rb 11.3 trillion. The volume of debt outstanding rose by 51.6% to Rb 0.7 trillion.

2 O. Samofalova, Plan bor'by s krizisom okazalsia protivorechivym [The Plan for Struggle against the Crisis Turned Out to Be Controversial]. See vz.ru/economy/2015/1/28/726670.html of 28 January 2015.

3 Ibid. It is envisaged that approximately Rb 230bn should be allocated to this item.

procedure for allowing the postponement, by the buyers operating under government purchase agreements, of the payment of fines and (or) penalties by the sellers, and (or) for writing off the amounts of fines or penalties already changes; the procedure for altering the timelines for the fulfillment of a government purchase contract, and (or) the per unit price of goods (or work, or services), and (or) the amount of goods (or work, or services) stipulated in government purchase contracts expiring in 2015; the conditions and procedure for restructuring the outstanding debt of commercial banks arising as a result of claims for payments against bank guarantees issued to secure the fulfillment of government contracts (if the banks delay payment under the guarantees issued by them), etc.

This set of anti-recession measures, as can be seen, is meant to support the suppliers (or contractors) operating in the framework of government orders. The feasibility of such measures is by no means indisputable: evidently, the government is prepared to grant payment postponement to debtors, while at the same time continuing to issue guarantees to cover other projects. One gets the impression that structural shifts are understood only as shifts in the direction of budget spending.

As far as the implementation of each of the planned measures is concerned, the key rate of the Bank of Russia will be applied as a baseline for calculating the amount of subsidies to cover the payment of interest rates on credits and the payments involved in implementing other economic policy measures; this means that suppliers (or contractors) and banks will be protected from all financial risks associated with government purchases – the government will provide them with subsidies (from the budget) to cover the payment of interest on credits attracted by suppliers (or contractors) in the amount corresponding to the Bank of Russia's key rate (18% or more). Moreover, the government agrees, from the very outset, to provide funding to cover the advance payments under government defense orders in amounts up to 80% of the contract value (but no more than 80% of the debt limit established for budget liabilities for a given financial year under a given budget classification code (on condition that a system of control over the fulfillment of government contracts should be established)).

The government is ready to compensate in full or in part, to the defense-industrial complex (DIC), its additional expenditures caused by exchange rate fluctuations and associated with purchases of imported spare parts and with the implementation of technological rearmament and reconstruction projects (in the part of purchases of imported technologies and equipment in the framework of government defense orders, etc.

The next block of anti-recession measures includes **imports substitution and support of exports other than raw materials exports**.

As far as this block of measures is concerned, the companies with state stakes once again enjoy priority treatment. It is intended to grant to the RF government the powers to establish the patterns for developing plans and making purchases of imported equipment, work, services, including those imported in the framework of big investment projects implemented by state organizations and joint-stock companies wherein the stake held by the Russian Federation is more than 50%, or investment projects to which government support is granted.

It is envisaged that the conditions and procedures for granting RF government foreign currency guarantees designed to promote the export of industrial products should be simplified. In this connection it should be reminded that government guarantees are financed by State Corporation VEB and insured by its affiliated insurance company, while losses are covered by budget funds; in other words, SC VEB (and its affiliation, OJSC *Roseximbank*) will be issuing credits or guarantees to Russian exporters, the government will be allocating budget subsidies to cover the loss of interest on those credits and guarantees incurred by SC VEB and its affiliation OJSC *Roseximbank*, and also cover the losses of the affiliated insurance company (evidently arising from failure, on the part of clients and exporters, to properly fulfill the procurement contracts).

Thus, we can see that the announced anti-recession measures are primarily oriented to covering the losses or compensating for lost income of state banks and state corporations at the expense of the federal budget (at a level equal to or above the Bank of Russia's key rate).

The next block of anti-recession measures is aimed at '**reducing the costs of doing business'.** These include measures like the introduction of a 2-year 'holiday' with regard to the payment of mandatory insurance coverage of civil responsibility of the owners of a dangerous industrial object for damages incurred as a result of an emergency situation there; the postponement of the introduction of transport safety measures. The procedure for obtaining export permits with regard to commodities that are not subject to any restrictions will be simplified, in that the exporters will no longer be obliged to submit a verified statement to confirm the absence of any bans on the export of a given commodity[1].

1 The fact that such a statement is actually required as part of the export procedure is manifest of the absence of a proper electronic information exchange system between government control bodies.

While the anti-recession measures designed to support state banks and state corporations will involve direct budget allocations, government guarantees, postponement of the execution of bank guarantees, and direct subsidies to cover interest rate gaps, other types of organizations will experience the new anti-recession measures mainly in the form of tax exemptions.

Thus, the section titled **'Support of small and medium-sized businesses'** envisages the following measures. It is planned to double the amount of proceeds from sales of goods (or work, or services) set as the ceiling for placing economic agents in the category of small or medium-sized entrepreneurs: for 'micro-companies' – from Rb 60m to 120m, for small-sized enterprises – from Rb 400m to Rb 800m, and for medium-sized enterprises – from Rb 1bn to Rb 2bn.

It is also planned to increase the amount of grants issued to businesses; to somewhat limit the antimonopoly control, establishing immunity from these rules for those entrepreneurs who lack a substantial market force; to suspend the ban on misuse of the dominating position on the market, and so on. We believe that this will result in a revival of dumping methods for the purpose of ousting competitors from regional markets and the emergence of regional monopolies.

Besides, it is planned to involve regional authorities in the anti-recession support of businesses. Russia's regions will be allowed to lower the tax rate levied on the income of taxpayers operating under a simplified taxation system from 6% to 1%; to expand the list of activities eligible for a simplified taxation system and the issuance of patents, and to lower by half the annual income ceiling for individual entrepreneurs (from Rb 1m to Rb 500,000); to lower the rate of single tax on presumptive income derived from specified types of economic activity for taxpayers operating under the presumptive income taxation system (PITS) from 15% to 7.5%; to extend the right to enjoy the 2-year tax holiday to all newly registered individual entrepreneurs operating in the sector of industrial and household services, etc.

Among the financial support measures, it is planned to grant small and medium-sized businesses a broader access to government purchase contracts.

The block titled **'Support of branches of the national economy'** involves a revision of the list of government programs to be implemented. It is now planned to render targeted support to entrepreneurs operating in specific branches of the economy. In agriculture, the introduction of requirements for mandatory formalization of veterinary control documents concerning dairy products will be postponed until a later date; in 2015, up to Rb 50bn of budget allocations will be earmarked for the support of the agricultural sector. In the housing construction sector and the housing and utilities sector, subsidies will be granted to cover the payment of interest on loans (so far without specifying the exact amount). Among the measures designed to support other sectors, there are budget allocations in the amount of Rb 10bn to cover the fleet renewal costs in the transport sector; allocations in the amount of Rb 3bn to co-fund the purchases of buses and machinery for the housing and utilities sector; subsidies in the amount of Rb 2bn to cover discounts on the price of purchased agricultural machinery; a contribution to OJSC *Rosagroleasing* in the amount of Rb 2bn; targeted loans to cover the supply of aircraft to Russian airlines – so far without specifying the exact amount; government support of domestic air transport and commuter railway transport services in the form of exemption from VAT for the period 2015–2016.

The '**social stability'** block includes the following measures: subventions to the budgets of RF subjects to cover the cost of unemployment benefits – up to Rb 30bn; budget reserves earmarked for covering the cost of medical rehabilitation equipment provided to disabled persons – up to Rb 10bn; indexation of insurance pensions by the inflation index – up to Rb 188bn; budget allocations to cover the cost of free-of-charge pharmaceuticals provided to citizens – up to Rb 16bn, etc.

The top priority measures also include 'radical improvement of the quality of state governance systems and the performance of big state-controlled companies'[1].

The implementation of these anti-recession measures will be supervised by the RF Government in close cooperation with the RF Federal Assembly, the bodies of state authority of RF subjects and local self-government bodies, the professional and expert communities in the framework of the open government system and other forms of cooperation. The list of top priority measures is by no means final, and it will be augmented by other anti-recession measures whenever necessary.

In our opinion, the scale of support to be provided to state banks and system-forming enterprises in the framework of the anti-recession plan may indeed undermine the RF financial system's sustainability. We believe it necessary to investigate the real situa-

1 For reference: according to RBC Daily, the personal annual income of the 119 CEOs of Russia's biggest state corporations (Rosneft, Rushydro, Gazprom, Aeroflot, ALROSA, Russian Railways, AvtoVAZ, Federal Grid Company of Unified Energy System, Rostelecom) received in 2014 amounted to more than Rb 10bn – a sum comparable, say, to the budget of the Jewish Autonomous Oblast and the budgets of some other RF subjects. See daily.rbc.ru/special/society/17/02/2015/54e2f3139a79474577b095b7.

tion in the RF economy on a more in-depth basis, with the participation of experts. Different segments of the economy are currently displaying multi-vectored trends: on the one hand, the inflation rate in the food market remains within reasonable limits, which may mean that some of the sectors in the Russian economy have begun to redistribute the financial resources being mobilized in the domestic market; on the other hand, the industrial production segment is still developing at a very slow rate, thus posing a threat in terms of reorientation of the existing financial flows towards purchases of imported cheap low-quality industrial products, with the resulting loss of part of the resources available in the domestic market, which will be channeled abroad. An important tool for redistributing financial flows inside Russia's domestic market is the newly emerged (over the last few years) private housing sector. Over the past period, the problem posed by housing shortage in the RF was solved in the main due to the efforts of individuals (in recent years, there was a surge in the volume of 'low-rise construction projects' in every region across the Russian Federation): people acquired construction materials on their own, and used their private means in order to provide the private housing sector with the necessary utilities. At the same time, the problem posed by lack of personal transportation means was also solved, with the resulting increased mobility of labor resources. Thanks to the development of wireless transmission systems it became possible to achieve the commercialization of the communications sector and ease the access to entertainment services and information sources. In fact, it is these developments that had kept in check the response of domestic prices to the plummeting oil prices and the ruble's exchange rate in December 2014. The stability displayed by this rather substantial segment of the domestic market prevented the panic from spreading into the entire Russian market, which responded by a surge of prices primarily in its import-oriented segments (clothes, footwear, tableware and other household utensils, electrical equipment, etc.).

The short-term policies of the Russian authorities, in our opinion, should be aimed at maintaining the existing structure of wages and saving, and at promoting the purchases of industrial products on the domestic market. Any attempts to raise the level of wages and social benefits will be counterproductive because in this case they will follow the upward trend displayed by the movement of prices. We believe that the injection of money (in any form) into an underdeveloped domestic market can only push further the growth rate of prices and/or the demand for foreign currencies, the natural consequence being the depreciation of individual savings. Let us emphasize this point once again: the growing incomes of any specific population group resulting from government support measures (the employees of budget-funded organizations, power structures or pensioners) will inevitably push down the value of savings accumulated by the other population groups. Accumulation of capital and saving is the foundation of macroeconomic stability in market conditions, a factor that can level down any one-time price surges. Besides, they are the source of long-term investment resources. During a consumption boom period (as it happened in December 2014), part of the accumulated savings can be spent on purchases of imported goods – that is, lost for the domestic market. Now it is important to prevent the depreciation of the remaining resources. Due to these considerations, the suggestions of the RF Ministry of Finance that the amount of budget expenditure should be further reduced (by abolishing the automatic annual indexation of the salaries of civil servants, military servicemen and law enforcers) seem very timely and reasonable although they are not supported by the RF Ministry of Economic Development which believes that, on the contrary, that in the current situation the government must sustain the growth of effective demand. As we have already noted, the redundant liquidity resulting from an over-stimulated consumer demand in an underdeveloped domestic market may be channeled away – either abroad as a result of purchases of imported goods (or work, or services), or into the foreign exchange market. In any event, this scenario will trigger depreciation of private savings in the RF. Perhaps it would be more feasible, in the situation that Russia currently is faced with, to try to ensure macroeconomic stabilization, and only then to begin to lower the Bank of Russia's key rate in a step-by-step procedure. At the same time, the government must render support to exports of products other than raw materials and to organize government-funded public employment projects as suggested by the Russian Union of Industrialists and Entrepreneurs (RSPP)[1].

Another fashionable direction in government policies have become the recently voiced call for control over consumer price. We believe that the most reasonable tactic will be that suggested by Chairman of the RF Government Dmitry Medvedev: to exercise control over the monthly growth rate of prices, preventing it from surging above 30%. Indeed, it is in the best interests of the domestic producers of marketable goods to keep the existing prices in the domestic market at a level slightly below that of the world prices for similar types of products.

1 RSPP predlagaet ne melochit'sia. Soiuz predstavil vlasti ideal'nuiu bezrazmernuiu antikrizisnuiu programmu [The RSPP Suggests a Generous Approach. The Union Offers the Authorities an Ideal Anti-crisis program]. See kommersant.ru/Doc/2664886

The difference between the standpoint of the RF Government and the standpoint of those who campaign for establishing a strict control over the level of prices is based on the following assumption. The prices on the domestic market should be checked in their free movement, the market will suffer from demand deficit: domestic producers will either be ruined or (at best) reorient their sales towards foreign markets[1], while foreign suppliers will carry on their supplies to Russia at prices no lower than world market prices. In the end, these products will have to be bought at free market prices, but by that time the direction of financial flows will have been diverted towards purchases of goods, work, or services on foreign markets, while the loss of domestic financial resources will destroy the prospects for domestic production development. The level of prices in some segments of the domestic market will indeed be increased at first[2], but then it will be pushed down by the factors created by the differences between the costs incurred by domestic producers and import prices. And these factors will emerge soon enough, because it will be cheaper to import standard well-tested technologies than to import simplest products from far-away locations[3].

Evidently the time has come to rethink some of the decisions of the past few years. We pointed it out long ago that one of the mistakes made in the early phases of Russia's market development had been the centralization of financial (tax) flows. Obviously, the central government was then afraid of the possibility of a parade of sovereignties, and so opted for federal budget allocations as a major source of funding instead of regional tax sources. In 2014, the amount of debt in regional budgets rose by another 20% to more than Rb 2 trillion. As a result, the anti-recession measures now undertaken by the RF Government must envisage not only the recovery of the banking system's resources, but also the allocation of subsidies to regional budgets to cover the repayment of commercial credit attracted by the regions, as well as the related interest payments (that is why the plan of anti-recession measures for the regions envisages the additional sum of Rb 160bn)[4]. It should be reminded that regional authorities were forced to rely on commercial credits in order to cover their social liabilities, which had been constantly on the rise. However, their revenue base had been shrinking due to the ever-increasing list of tax incentives and tax exemptions from the main taxes that form regional budget revenue (profits tax, property tax, land tax, etc.), introduced by federal legislation by way of supporting one or other category of taxpayers.

The accumulation of the personal income tax (PIT) levied on employed persons in the budgets of those cities where they were employed, and not (at least in part) at the place of their residence, was the factor that undermined the economies of small towns and villages[5]; the scheme that envisaged that the profits tax should be paid by consolidated group (suspended until 1 January 2016), as well as some other tax exemptions, likewise had a negative effect on the revenue base of regions.

The rule that the contributions to government off-budget funds should be charged to the cost of goods (or work, or services), and not to the wages (or income) or employed persons (or physical persons), coupled with the subsequent dramatic increase in the rate of

1 O. Samofalova, Plan bor'by s krizisom okazalsia protivorechivym [The Plan for Struggle against the Crisis Turned Out to Be Controversial]. See vz.ru/economy/2015/1/28/726670.html of 28 January 2015. According to data released by Rusprodsoyuz (the Association of Producers and Suppliers of Foodstuffs), the positive effects of the allocation of Rb 50bn to agricultural producers were neutralized by the negative effects of losses resulting from the unofficial ban on cereal exports. On the one hand, the prices of bread, bakery products and pastas were successfully stabilized; on the other, agricultural producers have been losing approximately 30% of their former profits (or Rb 45bn) from that part of cereal exports that might have been carried on at market prices without posing any threat to Russia's food safety. So the allocated Rb 50bn has compensated the agricultural sector for its direct losses from the discontinuation of exports, but not for its lost profits.

2 But not in all of its segments, contrary to what had happened in the 1990s. This time, there will be no all-enveloping 'price tsunami'. It is evident that no dramatic surge of prices will occur in many segments of the market for traditional foodstuffs, or the market for traditional (for Russia) construction materials and automobile brands. These segments have already become sufficiently resilient to survive the partial shrinkage of consumer demand and sustain the competitive prices and the market in general – while possible sacrificing their former rates of return. These segments have retained the main factor – the level of effective demand sufficient for covering their costs.

3 As confirmed by China's experiences.

4 O. Samofalova, Plan bor'by s krizisom okazalsia protivorechivym [The Plan for Struggle against the Crisis Turned Out to Be Controversial]. See vz.ru/economy/2015/1/28/726670.html of 28 January 2015.

5 In the current crisis situation, the Moscow Government is still prepared to spend huge budget resources on the replacement of old market kiosks by new ones. Perhaps the decision concerning the replacement of the existing market stalls by new models is dictated by profound economic wisdom, but the time of crisis can hardly be considered suitable for such an investment. In our opinion, this course can be abandoned in favor of, say, redistributing part of the collected PIT to the budgets of those regions that serve as the source of workforce that travels to Moscow and other big cities in search of higher earnings. The issue of redistributing these resources to the regions is very important – given the fact that the debt of RF subjects is still on the rise, while the switchover of regions and municipalities to the principle of break-even budget performance on the basis of their own revenue sources without increasing the tax burden on producers can help reduce the current burden on the federal budget – a measure that can be very useful in a crisis situation.

contributions, undermined the competitive capacity of domestically made products by comparison with imports. The additional burdens on businesses introduced in 2014 (to come into force in 2015), including sales levies, have not been abolished, either.

The lack of proper regulation of these basic issues will be the factor working against Russia's successful exit from the recession period.

As regards the other normative documents issued during the period under consideration, special attention should be given to the following documents clarifying a number of technical issues concerning the payment of taxes and contributions to state extra-budgetary funds.

1. Letter of the Federal Tax Service of Russia (FTS), of 2 February 2015, No BS-4-11/1443@ clarifies the procedure for submission, by tax agents, of data on the incomes of physical persons in the event of their obtaining income from transactions with securities.

In accordance with Article 226 of the RF Tax Code (RF TC), the relevant amounts should be calculated, and personal income tax (PIT) paid in relation to all the income received by a taxpayer of which the tax agent is the source (the category of tax agent includes those Russian organizations, private entrepreneurs, privately practicing notaries and lawyers who have found legal offices, and economically autonomous subdivisions of foreign organizations in the Russian Federation from which, or as a result of relations with which, a taxpayer has received income), with the exception of income in relation to which tax is calculated and paid in accordance with Articles 214.3, 214.4, 214.5 and 214.6 of the RF TC, and tax agent is defined in accordance with Article 226.1[1]:

Article 214.3 establishes the procedure for calculating the PIT base arising from those REPO transactions of a taxpayer which are carried out at his (or her) expense by commission agents, agents or fiduciaries (including through an organizer of trade on the securities market and in stock exchange trading) on the basis of appropriate civil contracts;

Article 214.4 establishes the procedure for calculating the PIT base arising from securities lending transactions, and specifies that the tax base arising from such transactions should be defined as interest income received in the tax period from the aggregate of loan agreements in which the taxpayer is the lender, reduced by the amount of interest expenses paid in the tax period in respect of the aggregate of loan agreements in which the taxpayer is the borrower[2];

Article 214.5 establishes the procedure for calculating the PIT base for income received by participants in an investment partnership;

Article 214.6 establishes the procedure for calculating the PIT base for income on federal state issuance securities, municipal issuance securities, and issuance securities issued by Russian organizations, which is paid to foreign organizations in the interests of third parties.

The tax agent, recognized as such in accordance with Article 226.1, is obliged to calculate and withhold tax amounts with relation to the income which falls under Articles 214.3 and 214.4, on the basis of information provided thereto by the issuer of the securities. Tax agents, recognized as such in accordance of Article 226.1 of the RF TC, should use Annex 2 to the Personal Income Tax Return. The form of this tax return was approved by Order of the FTS of Russia, of 26 November 2014, No MMB-7-3/600@.

In the event when the payment of income on securities is carried out by an organization which is not recognized as tax agent within the framework of Article 226.1 of the RF TC, but is recognized as such in accordance with Article 226 of the RF TC[3], information on the income of physical persons should be submitted by the aforesaid organization in the form and the procedure established by clause 2, Article 230 of the RF TC[4]. As far as securities lending transactions are concerned, this provision should apply, for example, to organizations which pay dividends other than those paid on shares in Russian organizations.

2. Order of the FTS of Russia, of 25 December 2014, No MMV-7-11/673@ introduces a new form of notification on tax amounts relating to property taxes (transport tax, land tax and personal income tax), which the relevant tax authority, in accordance with the RF TC, should present to the taxpayer no later than 30 calendar days prior to the due date.

3. Prevailing legislation provides for the possibility when a seller does not need to issue an invoice to a

1 Article 226.1 regulates relations between the tax agent and the payer of personal income tax with regard to the types of income distributed within the framework of legislation on profits tax.

2 The procedure established by Article 214.4 applies to those securities lending transactions of a taxpayer which are carried out at his (or her) expense by an agent, commission agent, delegate or fiduciary on the basis of a civil-law agreement, including through an organizer of trade on the securities market (stock exchange). An agreement on a loan issued (received) in the form of securities must provide for interest to be paid in monetary form.

3 Article 226 of the RF TC regulates the general procedure for recognizing as a tax agent the legal or physical person who withholds the amount of personal income tax when paying income to the taxpayer.

4 According to clause 2 of Article 230 of the RF TC, '… tax agents shall present, to the tax authority where they are registered, the information on income of physical persons for the tax period that has ended, and on the amounts of taxes charged, withheld and remitted to the budget system of the Russian Federation for that tax period … '.

buyer in the event when the former has got a written agreement to that effect from the latter. At the same time, the sale of goods (or work, or services, or ownership rights), which is recognized as an object of VAT taxation, and is not exempt from taxation under Article 149 of the RF TC, should be entered in the sales ledger (which is to be maintained when using the simplified system of taxation) by way of registering the invoice, the cash control register's band, and the strict accounting form (paragraph 1, clause 3 of Article 169 of the RF TC; sub-points 1, 3 of the Requirements for Keeping a Sales Ledger [*Pravila vedeniia knigi prodazh*]).

Letter of the RF Ministry of Finance, of 22 January 2015, No 03-07-15/1704; and Letter of the FTS of Russia, of 29 January 2015, No ED-4-15/1066 explain that, for the purpose of verifying VAT payments, the sales ledgers can be used for registering other documents, e.g. an accounting reference, which contain cumulative (aggregate) data on transactions carried out over a calendar month (quarter).

4. Letter of the RF Ministry of Finance, of 27 January 2015, No 03-04-07/2785; and Letter of the FTS of Russia, of 9 February 2015, No BS-4-11/1833@ clarify the issue of VAT taxation of a lump sum payment and monthly payments under contracts for permanent rent.

The letters emphasize that such contracts do not imply relations of equivalent exchange. As the payment of rent is carried out on a permanent basis or during the entire period of life of the rent recipient, the aggregate payment can exceed or fall short of the actual value of the property transferred into the ownership of the rent payer in exchange for rent, depending on the duration of relations between the two parties. Therefore monthly payments should not be considered to be income from the sale of property transferred under a contract for permanent rent or annuity contract, that falls under the provisions of clause 17.1 of Article 217 of the RF TC concerning the tax exemption of income received by physical persons (who are tax residents of the Russian Federation) from the sale of residential houses, apartments, rooms, including privatized dwellings, dachas, garden cottages, or plots of land, and share interests in the above-mentioned property which have been owned by the taxpayer for periods of three years or more. Also, monthly rent payments should not be recognized as acquisition expense, and so could not be used within the framework of clauses 1 and 2 of Article 220 of the RF TC concerning property-related tax deductions from income received from the sale of property or share interests in property.

As regards income in the form of a lump sum payment envisaged by the contract, the recipient of rent has the right to use the tax benefit concerning income received from the sale of property which has been owned by the taxpayer for three years or more, while the rent payer has the right to use a corresponding tax deduction in the event the property acquired by the rent payer under the contract for permanent rent.

5. Letter of the RF Ministry of Labor and Social Protection, of 30 January 2015, No 17-3/V-37 clarifies the issue of payment of insurance contributions to state extra-budgetary funds, on the amount of earnings in excess of the established maximum base for charging insurance contributions, by organizations applying reduced rates of insurance contributions.

In accordance with the provisions of Part 4, Part 5, and Part 5.1 of Article 8 of Federal Law, of 24 July 2009, No 212-FZ 'On Insurance Contributions to the Pension Fund of the Russian Federation, the Social Insurance Fund of the Russian Federation, and the Compulsory Medical Insurance Federal Fund' (as amended by Federal Law, of 1 December 2014, No 406-FZ), the base for charging insurance contributions to the Social Insurance Fund of the Russian Federation (RF SIF) and the Pension Fund of the Russian Federation (RF PF) should be adjusted and determined with regard to each physical person.

Employer insurance contributions should not be charged on the aggregate amount of employer payments and other bonuses to a physical person in excess of the upper limit established for such payments and bonuses for the corresponding financial year.

Decree of the RF Government, of 4 December 2014, No 1316 establishes that the maximum base for charging mandatory social insurance contributions in the event of a temporary disability, including a temporary disability related to maternity, should be set at Rb 670,000. No insurance contributions should be charged on amount of earnings in excess of this base in the event of a temporary disability, including a temporary disability related to maternity.

The aforesaid Decree of the RF Government also establishes that the maximum base for charging insurance contributions to the RF PF should be set at Rb 711,000.

In accordance with Article 58 of Federal Law No 212-FZ, in the period 2012–2017, employers (except for those applying reduced rates of insurance contributions) must pay insurance contributions to the RF PF at the rate of 22% for annual earnings within the limits of the established maximum base for charging insurance contributions, and at the rate of

10% for annual earnings in excess of the established maximum base.

Thus, payers of insurance contributions applying reduced rates thereof should not pay insurance contributions to the RF PF on the amount of earnings of a physical person in excess of Rb 711,000.

6. As far as the other normative documents on financial issues are concerned, special attention should be given to Order of the RF Federal Agency for State Property Management (*Rosimushchestvo*), of 29 December 2014, No 524, which authorizes the *Methodological Guidelines for Developing a Dividend Policy in Joint-stock Companies with State Participation*.