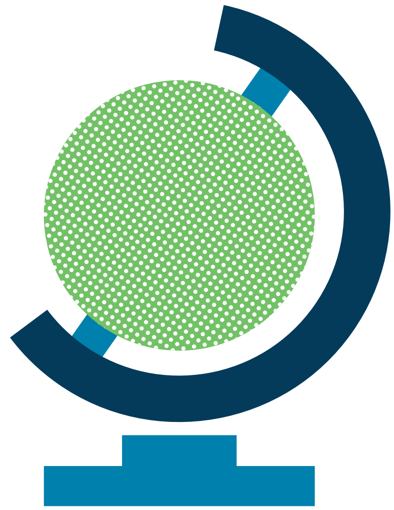

INTERNATIONAL TIDBIT:

U.S. Tax Planning for Investment in Russia

On February 13, 2013, UHY LLP participated in a seminar hosted by U.S.-Russia Chamber of Commerce and the U.S. Department of Commerce' U.S. Commercial Service on Doing Business in Russia (After the Reset – A New Era in U.S.-Russian Business Relations). I was privileged to speak about U.S. tax planning for investment in Russia, including information on Russian taxes provided by Nikolay Litvinov of UHY-Yans Audit in Moscow.

2013 TAX OUTLOOK

For 2013, the corporate tax rate in Russia is 20% and the individual tax rate is 13%. For U.S. companies considering an investment in Russia, determining the foreign tax credit implications for earnings from a Russian enterprise, and whether it should be set up under a foreign holding company could be important decisions. The presentation shows how U.S. investors may be taxed, given not only the relatively low rate of corporate income tax in Russia (compared to a maximum rate in the U.S. of 35%), but also the impact of dividend withholding tax of 15% (reduced to 10% under the double taxation treaty between the U.S. and Russia) on individuals and the U.S. entities through which they invest.

SETTING UP IN RUSSIA

As pointed out by Nikolay in background materials he contributed to, it is not generally attractive to set up business in Russia as a branch of a foreign legal entity because the arrangement expires at the end of the five years. U.S. investors can achieve a similar result by using a Russian entity, such as the one abbreviated "OOO" and make an election (Form 8832) to treat it as a disregarded entity for U.S. tax purposes.

BLACKLIST FOR INBOUND INVESTMENT INTO RUSSIA

Considering that investment in Russia may be part of a broader tax deferral structure involving an offshore holding company through which investments are made, it is good news that Cyprus has been removed from the so-called Black List of countries maintained by the Ministry of Finance and into which investment by Russian taxpayers was discouraged. A protocol to the Russia-Cyprus treaty went into effect on January 1, 2013. While much of the attention related to Cyprus was focused on concerns that Russian residents might be using Cyprus companies to avoid Russian taxes, from our perspective the treaty is attractive for investment going in the other direction – through Cyprus into Russia – in order to reduce Russian withholding taxes on dividends, interest, and royalties.

If you have additional questions regarding this topic, please feel free to contact:

Nikolay Litvinov
International Tax Principal
n. litvinov@uhy-yans.ru
+7 495 925 5751