

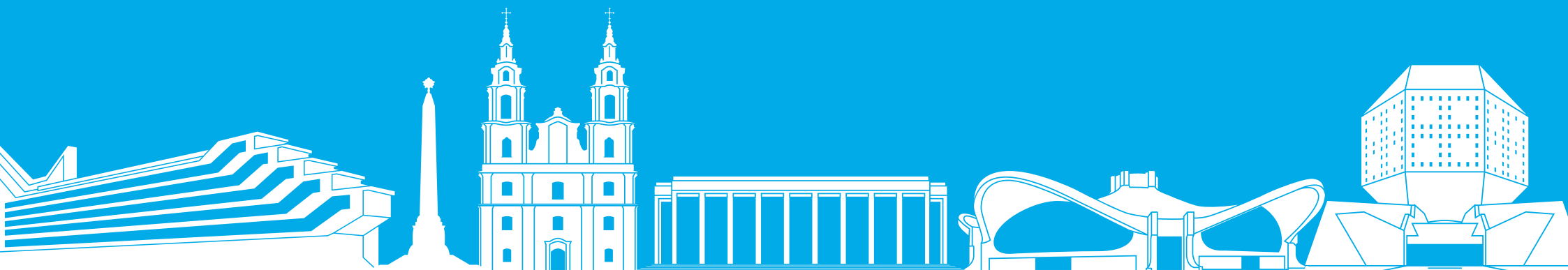


Belarus Business and Investment Guide Tax Issues 2015

Tax consulting



Contents



8

Country
profile

9

Incentives
for foreign
investors

12

Tax
administration

18

Types of business
presence

22

Taxation of businesses
in Belarus

34

Social
insurance

36

Taxation
of individuals

38

Customs
issues

40

Currency
control issues

44

Contacts

Introduction



This Belarus business and investment guide has been prepared by Minsk office of Deloitte CIS specifically for those who may be contemplating business activities or investment in the Republic of Belarus.

Belarus strives to create open and favourable conditions for business in its territory. Today the country is the leader in legislation improvement which is confirmed by the World Bank's Doing Business 2015 research.

Belarus holds a special place in the map being a specific bridge between the East and the West. Its neighborhood with the countries of the European Union and its integration into the Customs Union of the EEU create unique opportunities for the companies interested in dynamic development of their business in the Eurasian region. This exceptional geopolitical position ensures a wide selection of investment opportunities and boosts further development.

The main objective of the booklet is to analyze the requirements of local laws regarding the taxation and also the establishment and operations of business enterprises in the Republic of Belarus. The information provided in the following pages reflects the situation as of 1 February 2015, however, it is not exhaustive, nor is it intended to be so.

The reader should be aware that the general framework of the legislation and the detailed regulations underpinning it are subject to periodic change. Therefore, before making any decisions, we recommend that you seek further advice on the relevant issue.

As advisors with extensive experience in the Republic of Belarus and abroad, Deloitte takes its role as extending beyond mere identification of risks - we also find solutions to minimize them.

Thanks to Deloitte powerful worldwide network, we can propose tailor-made solutions that enable your organization to benefit from optimizing your tax position.

Our services

We consult on direct and indirect taxation regarding the following matters:

- General consultation on calculating and making any mandatory tax and non-tax payments
- International tax planning and structuring
- Tax reviews and identification of possible tax optimization options
- Tax planning for investment projects
- Tax risk management and evaluation of the compliance of the company business activity with the legislation
- Development of company tax and accounting policies and related procedures
- Assessment of company tax risks (due diligence)

Outsourcing accounting and reporting services:

- Accounting and reporting in accordance with Belarusian legislation
- Maintenance of bank accounts; bank and cash transaction accounting
- Tax accounting and tax reporting
- Outsourcing services related to payroll and related tax assessment
- Preparation of statistical reports and their submission to the Belarusian statistics authorities
- Services related to IFRS accounting and transformation
- Accounting automation, implementation of information technologies
- Consulting on issues related to the performance of financial (business) transactions, forming the performance results and the preparation of financial statements
- Restoration of company accounting



Tax dispute resolution:

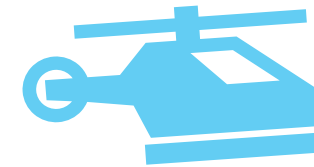
- Tax advice in complicated legal situations (for instance if a tax authority changes the legal qualification for transactions), including consideration of tax consequences and provision of recommendations regarding the optimization of the business organizational structure
- Pre-trial settlement of tax disputes with the authorities (consulting on disputable tax and accounting issues that the tax authorities consider a violation of legal requirements; evaluation of correct accounting and making mandatory payments)

Private client services (to businessmen, company owners and investors) on tax consulting:

- Elaboration of personal investment structures
- Restructuring of personal holding mechanisms
- Tax and legal support of Single Family Office
- Preparation of personal tax reports and provision of compliance with currency control requirements
- Tax services in different foreign jurisdictions
- Advice on financing arrangements, financial risk management and growth strategies including the financing and valuation of mergers and acquisitions
- International and cross-border tax advice
- Design and implementation of investment entity structures, reporting, and tax compliance

Advice on payroll and individual taxes:

- Assistance in preparing tax returns
- Registration with the tax authorities
- Advice on various issues relating to structuring employment in the Republic of Belarus
- Tax advice on personal income tax and other obligatory charges imposed on employees and employers
- Tax advice for individuals on the application of the relevant provisions of international double tax treaties and on the interpretation of these provisions by the tax authorities
- Advice on legislative requirements with regard to foreign nationals in Belarus, including the obtaining and preparation of documents necessary for their stay and work in Belarus



Tax and other services for banks, insurance and other financial companies:

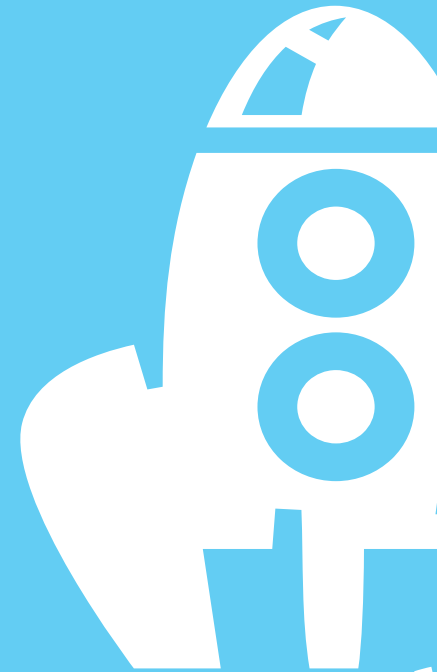
- Planning of financial and holding structures
- Due diligence and assessment of risks
- Advice on compliance with bank (or insurance company) registration and licensing requirements; follow-up advisory assistance in establishing separate bank departments
- Advice on the determination of various tax aspects of insurance activities, including forming, financing, investing, placing and using insurance reserves, etc.
- Advice on local regulatory acts regarding banking activities, analysis of internal bank regulations and their compliance with the principles and requirements of Belarusian legislation
- Advice on tax aspects of loans, securities, foreign exchange and other bank operations
- Consulting support in establishing the bank subsidiaries, such as leasing/insurance companies

International taxation:

- Advice on the application of double tax treaties
- International tax planning aimed at improving business efficiency, reducing operating costs and managing economic risks
- Structuring of cross-border investments
- Consultation regarding tax efficient international holding structures
- International tax and tax planning presentations, workshops, conferences and other events etc.
- Assistance in setting up companies in foreign jurisdictions (with the involvement of partner legal firms)

International cooperation with other Deloitte practices ensures a direct and efficient transfer of knowledge. The Deloitte network has a worldwide database with tax information covering more than 185 countries.

The international network of Deloitte tax professionals provides high quality consulting in all international tax matters.



The attention
your business deserves



Country profile

Currency

The Belarusian national currency is the Belarusian Ruble (BYR). As of 1 February 2015, the National Bank of the Republic Belarus established the following official exchange rates for the major currencies:

- BYR 15,400 for USD 1
- BYR 17,440 for EUR 1
- BYR 223,5 for RUB 1

Banking system

As of 1 January 2015, there were 31 banks in the Republic of Belarus. Most Belarusian banks have foreign investors as shareholders, although the state currently has a dominant share in the charter capitals of the three biggest banks. It plans to decrease the state share in these banks and to attract foreign investments to meet the requirements for an initial public offering (IPO). To date, the Belarusian stock market remains largely undeveloped, however the Government has been paying attention to these issues recently, which makes it possible to talk about a possible increase in activity.

Belarus is located in Europe, at the crossroads of the routes that link CIS member states with the countries of Western Europe. Belarus borders on Poland, Lithuania, Latvia, Russia and Ukraine.

History and government

On 8 December 1991, in Viskuli (Brest region), the leaders of the USSR founding republics, i.e. Belarus, Russia, and Ukraine, made a decision to eliminate the USSR and establish the Commonwealth of Independent States (the CIS). Minsk was chosen as the administrative center of the CIS and the Republic of Belarus became an independent state. In 1994, a new constitution was adopted and the first president was elected. Belarus is a presidential republic. The Parliament is a representative and legislative body of the Republic of Belarus and consists of two houses: the House of Representatives (110 members) and the Council of the Republic (64 members).

According to the Constitution, state power in the Republic of Belarus is exercised on the basis of the separation of legislative, executive, and judicial powers.

Incentives for foreign investors

The beneficial geographical location of the Republic of Belarus has made it a country with a high potential for foreign investment. For a company planning to establish a production or distribution unit in Eastern Europe, the Republic of Belarus offers a skilled and cheap labor force, low prices, and a relatively well developed infrastructure. The Belarusian government has established a special program for attracting foreign investment, and foreign investment is guaranteed under the Investment Code and by the Law of the Republic of Belarus No. 53-Z On Investments dated 12 July 2013. Under the aforesaid documents, foreign-owned companies have the right to repatriate profits arising from investing activities on the territory of the Republic of Belarus without any restrictions. Furthermore, the Republic of Belarus has signed bilateral agreements on the protection and promotion of investments with many countries around the world.

Due to policies encouraging foreign investment, investors may gain significant advantages, such as tax benefits and exemptions from certain obligations, by investing in the Republic of Belarus.

Free Economic Zones (FEZs)

An FEZ is a part of the Republic of Belarus with well defined borders and a special legal regime that provides more favorable conditions for business. The essential objective of these zones is to attract and use foreign and national investments effectively to create and develop goods for export, and will be based on the latest technologies, as well as the efficient use of available production space. There are 6 FEZs in the Republic of Belarus.

The appeal of a special legal regime like an FEZ for a potential investor is preferential taxation. In certain cases provided by the legislation, FEZ residents pay certain taxes at half the rate of the standard, including profit tax at 9% and VAT at 10%. Beside that, profit received by FEZ residents from supplies of goods, work or services of their own production is exempt from profit tax and transportation duty for a period of 5 years after the profit in question is declared. Additionally, FEZ residents do not pay real estate tax on buildings located within FEZs.



The heart of your
business success

High Technology Park (HT Park)

Belarusian legal entities (including those with 100% foreign investment) and individual entrepreneurs, whose activities are concerned with the analysis, development and software support of information systems, data processing, technical information protection, data base creation and rendering a number of other IT services can become members of the HT Park in the Republic of Belarus. The HT Park provides for full exemption from almost all taxes and duties, including income tax, VAT, and real estate tax. Moreover, the technical equipment imported by HT Park residents into the Belarusian customs territory is exempt from customs duties and VAT. An exhaustive list of such equipment has been determined by the state authorities and includes computers, as well as copying and facsimile devices.

The tax rate paid on the income received from dividends, interest (coupon) income from debt liabilities and royalties by foreign legal entities that do not operate in the Republic of Belarus through permanent establishments (provided they originate from an HT Park resident) amounts to 5%, unless more favorable terms are established by international treaties of the Republic of Belarus. In addition, the residents of the HT Park do not pay offshore duty on the part of the income accrued and paid (transferred) to the owner of their property.

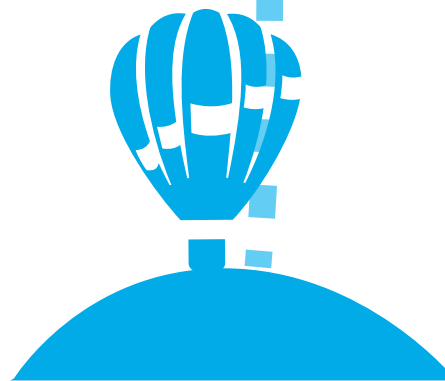
Providing tax benefits for conducting business in rural areas, as well as in small and medium size towns

At present Belarusian legal entities and individual entrepreneurs registered in the Republic of Belarus and located (residing) in rural areas, small and medium size town centers and carrying out business activities involving the manufacture of goods, performance of work or provision of services in those or other rural areas or towns for seven calendar years since the day of their state registration, may be exempt from profit tax and personal income tax with regard to goods (work or services) they produce themselves; real estate tax on property located in rural areas, small and medium size towns; customs duties and VAT (except VAT charged on goods imported from the Russian Federation) payable on production equipment, as well as related spare parts and accessories imported for the purpose of forming or increasing the legal entity in question's charter capital.

The foreign and Belarusian legal entities mentioned above are exempt from the compulsory sale of foreign currency in the amount of 40% for 7 years from the date of their registration. This allowance is applied with regard to foreign currency received from sales of goods/work/services they produce themselves.

Providing tax benefits for motorway services

Profit received by legal entities and individual entrepreneurs from supplies of goods (work or services) through motorway service facilities (e.g., motels, hostels, hotels, campsites, service and car washing stations, retail, canteens, secured parking lots, parking lots for vans and residential trailers) is exempt from profit or personal income tax for a period of 5 years after the establishment of such facilities. In addition, motorway service facilities are not subject to real estate tax for a period of 2 years from the date that trading activities start.



Tax administration

The Belarusian Tax Code

General information

The General Part of the Tax Code came into force on 1 January 2004. The Special Part of the Tax Code came into effect on 1 January 2010.

Types of taxes and duties

There are state as well as local taxes and duties in Belarus. A number of special tax regimes are mentioned in the Tax Code:

- Tax applied under the simplified system of taxation
- Unified tax for individual entrepreneurs and other individuals
- Unified tax for agricultural producers
- Gambling tax
- Lottery tax
- Interactive electronic game tax
- Duties for artisanal activities
- Duties related to agro- and ecotourism services
- Unified tax for imputed income.

The Belarusian system of taxation allows for the following taxes and duties.

National taxes and duties:

- Value-added tax (VAT)
- Excise tax
- Profit tax
- Tax on the income of foreign entities not operating in Belarus via a permanent establishment
- Personal income tax (PIT)
- Real estate tax
- Land tax
- Environmental tax
- Mining tax
- Duties on foreign nationals' motor vehicles which travel on Belarusian highways
- Offshore duty
- Stamp duty
- Consular fee
- State duty
- Patent fees
- Customs duties and fees
- Disposal fee

Local taxes and duties:

- Dog tax
- Resort levy
- Vendor tax

In addition to taxes, there are also compulsory insurance contributions to the budget of the Social Security Fund and RUE Belgosstrakh.



Payers of taxes and duties

The Tax Code defines the payers of taxes and duties in Belarus. The following organizations are taxpayers:

- Belarusian legal entities
- Foreign and international organizations, including those that are not legal entities
- Simple partnerships/contract partners in joint activities

Branches, representations, and other separate subdivisions of the Belarusian legal entities which have a separate balance sheet and a current (settlement) or other bank account and the officers of such separate subdivisions are entitled to manage cash in such accounts, shall calculate the amount of taxes, duties/levies and fulfill the tax liabilities of those legal entities.

The term “individuals” includes:

- Belarusian citizens
- Foreign citizens
- Stateless persons

Accounting and audit

Accounting

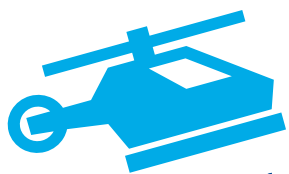
By 31 December each year, companies must formulate an annual financial statement consisting of the following:

- balance sheet,
- income statement,
- statement of changes in shareholder equity,
- cash flow statement,
- notes to the financial statements as provided by the legislation of the Republic of Belarus.

According to domestic tax accounting rules, income in accounting and tax accounting is recognized on an accrual basis.

The accrual basis implies the recognition of the revenue:

- from the sale of products and goods on the following conditions: all risks and benefits from owning the products, goods are transferred to the buyer, the amount of the revenue can be determined; it is likely that an increase of the economic benefits is going to occur for the company as a result of a specific transaction; expenses that are or will be incurred in relation to the transaction can be determined.
- from the performance of work (rendering a service) on the following conditions: the amount of the revenue can be determined; it is likely that an increase of the economic benefits is going to occur for the company as a result of a specific transaction; expenses that are or will be incurred in relation to the transaction are possible; the percentage of completion of the work (rendering of services) at the reporting date can be determined; expenses for performance of the transaction and its completion can be determined.



Obligatory independent audit

The following entities are subject to an obligatory annual independent audit:

- Joint stock companies that are required to publish their annual financial statements for the general public in accordance with the legislation of the Republic of Belarus
- National Bank of the Republic of Belarus
- Banks, banking groups, bank holdings
- Stock exchanges
- Commercial organizations with foreign investments
- Insurance companies and insurance brokers
- HT Park residents
- Legal entities that provide guaranteed repayment of individual bank deposits
- Professional participants of the securities market
- Other legal entities whose revenue from sales of goods/performance of work/rendering of services for the preceding year exceeded EUR 5 mln at the official foreign exchange rate established by the National Bank of the Republic of Belarus as at 31 December of the previous reporting period.

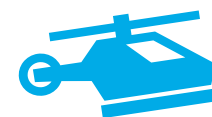
Transfer Pricing

New transfer pricing rules are included in the Belarus Tax Code effective from 1 January 2012.

The rules apply to the following transactions:

- Sales of real estate where the transaction price is more than 20% lower than the market price as at the date of the sale; and
- Foreign trade transactions, including transactions with related parties, where the price of the transaction (or transactions with the same party) within a single calendar year exceeds BYR 1 billion:
 - sales of goods (performing work, rendering services) and the price of the transaction deviates by more than 20% from the market price of the goods (work, services) as at the disposal date;
 - acquisition of goods (work, services) and the price of the transaction deviates by more than 20% from the market price of the goods (work, services) as at the acquisition date.

If the tax authorities determine that the transaction price deviates from the market price by more than 20%, they may adjust the tax base and profits of one of the parties to the transaction to an amount that would have been obtained had the transaction price been set at the market level. The tax authorities can use the comparable uncontrolled price, resale minus and cost-plus, transactional net margin methods for determining the market price.



Tax audits

The Belarusian Ministry on Taxes and Duties is responsible for levying taxes and duties. The local tax authorities, which are subordinate to the Ministry, have the right to perform tax audits.

They may perform both scheduled and unscheduled audits of business entities. The frequency of scheduled/field tax audits of a taxpayer (or another liable person/entity) depends on the risk group the audited person/entity is assigned to:

- High risk – not more than once in a calendar year; if no violations are found based on the results of a scheduled audit, the next one will be performed no more than once per 2 calendar years (including the year when scheduled audit was held)
- Medium risk – not more than once every three calendar years; if no violations are found based on the results of an audit, the next one will be performed no more than once per 5 calendar years (including the year when the scheduled audit was held)
- Low risk – on an as-needed basis, but no more than once per every five calendar years

The criteria for assigning an audited entity to a certain risk group are specified in the legislation.

Meanwhile scheduled tax audits will be carried out no more than once every five years, regardless of the group of risk a legal entity/individual entrepreneur belongs to if the following conditions are met simultaneously:

- no violations were found during a previous scheduled audit
- no violations of the legislation have been detected since the previous scheduled audit.

From 2010 in Belarus the principle of good faith towards the audited entity is effective. In particular, if there is an ambiguous or unclear provision of the law, decisions should be made in favor of the audited entity.

The legislation provides for a moratorium on audits for two years after the establishment of an entity (or representative offices of foreign entities in Belarus).

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Despite these restrictions, there is a high risk of the tax authorities performing an unscheduled audit for a wide range of reasons, for instance:

- If the controlling/supervisory authority has information (including that obtained from a state authority, a foreign state, another entity or an individual) giving evidence of a violation of legislation being/having been committed or of any threatening or inflicted damage
- Liquidation of the entity
- Request of the entity
- Cross-audit of another legal entity
- Where the tax authorities have information to suggest that a business entity has not been conducting business activities for 12 consecutive months and has not provided the tax authorities with a reason for this
- To confirm the validity of setting-off or refunding VAT that was excessively accrued and charged on the sales of goods/work/services and/or property rights to the audited entity

Audits will be performed for a period not exceeding three calendar years prior to the year the audit takes place. However, please note that this restriction does not apply to audits of compliance with budget and tax legislation; audits performed by order of the President of Belarus, the Presidium of the Council of Ministers of Belarus, the Chairman of the State Control Committee and his/her deputies, or the General Prosecutor and his/her deputies; and audits performed as part of supervision over banking activities, including on a consolidated basis.

According to Belarusian legislation, the duration of a tax audit should not exceed 30 business days (although an extension is possible). However, in practice, the duration of a tax audit usually does not exceed 10 calendar days.

Information about scheduled audits can be found on the website of the State Control Committee of Belarus www.kgk.gov.by.

Administrative liabilities in case of breaching tax laws and regulations

The effective Belarusian Code of Administrative Offenses (hereinafter, the Administrative Code) sets out the sanctions that may be imposed on taxpayers who have broken the law. Typical violations committed by taxpayers and the amounts of fines in effect from 1 February 2015 are listed below.

Late registration with the tax authorities is subject to a fine of up to the equivalent of USD 58, for both individuals and legal entities.

If a legal entity or an individual entrepreneur operates without registering with the tax authorities, that legal entity is subject to a fine of 20% of the income from the activities carried out while unregistered. An individual entrepreneur is subject to a fine of up to USD 233.

Late filing of a tax return entails a fine of up to 10% of the tax due on the return for both individual entrepreneurs and legal entities, but not less than a fine of USD 23 and USD 116, respectively.



Non-payment or partial payment of taxes within the term determined by the legislation, results in a fine of 20% of the unpaid tax for both legal entities and individuals, but not less than USD 116 and USD 23, respectively.

A tax agent's failure to withhold taxes entails a fine of 20% of the tax due for individual entrepreneurs and legal entities, but not less than USD 27 and USD 136, respectively. The penalty can be increased up to USD 700 in cases of willful violation.

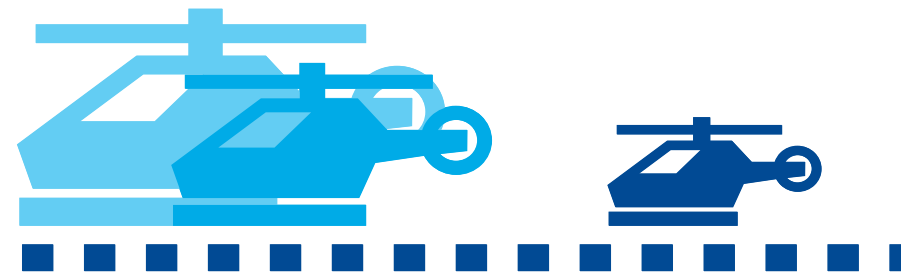
Late payment of tax is subject to a daily late payment fine of 1/360 of the National Bank refinancing rate and, effective from 9 January 2015, a fine of 0.0694% per day applies.

Fines imposed for non-payment/non-withholding of taxes is not applied to taxpayers/tax agents who have paid/withheld the full amount of taxes due at the beginning of the audit performed by the tax authorities.

Criminal responsibility

In addition to tax and administrative fines and penalties, Article 243 of the Criminal Code, On Tax Evasion, provides for three years imprisonment for ordinary tax evasion and three to seven years imprisonment for tax evasion causing extensive damage to the state budget.

As far as entities bear personal responsibility for tax violations, good tax planning and careful compliance should be paid special attention in order to prevent violations and achieve success.



Types of Business Presence

Belarusian legislation provides for a number of different legal forms through which foreign businesses may operate.

The most common forms of business in Belarus are:

- Representative offices
- Legal entities

Registration requirements

Belarusian legislation requires that a foreign legal entity registers its presence with the tax authorities in the following cases:

- if it creates a representative office or a separate division, or conducts any activities in the Republic of Belarus
- if it has a bank account with a Belarusian bank, movable property and real estate on the territory of the Republic of Belarus, and therefore, the foreign legal entity must be registered in the Republic of Belarus

Representative offices

Representative offices (ROs) have traditionally been established in order to act as the “eyes and ears” of a foreign legal entity (FLE), whose presence on the Republic of Belarus does not lead to an obligation to pay taxes. Currently ROs may be both taxable (if the RO performs the functions of a permanent establishment it qualifies as a PE) and non-taxable. At the same time, since January 2014, the legislation has set forth a prohibition on establishing ROs for the purpose of conducting income generating activities on the territory of the Republic of Belarus. If it is going to conduct income generating activities in the Republic of Belarus it shall be registered with the tax authorities and have the status of a permanent representative office.

The Belarusian Civil Code envisages the activities of an RO as protecting and representing the interests of an FLE in Belarus and performing other functions that do not contradict Belarusian legislation.

According to the Belarus Tax Code, a PE is deemed to exist and is subject to taxation where there is a separate subdivision or office through which a foreign entity carries out entrepreneurial and other activities in Belarus, which lead to profits generation.



An entity or individual that carries out activities on behalf of and/or for the benefit of a foreign entity and/or has and exercises the authority of the foreign entity to conclude contracts or to agree upon essential terms and conditions

Therefore, ROs are only taxable if they carry out commercial or other similar activities in Belarus, including negotiating and concluding contracts.

An FLE is not deemed to have created a PE if a Belarusian legal entity or individual carries out activities on behalf of the FLE in question in the ordinary course of its business activities.

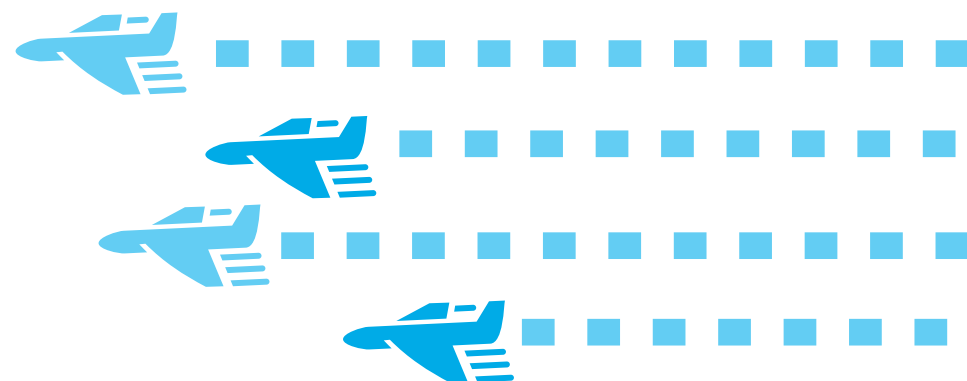
The taxation of a commercial RO does not differ from that of an ordinary Belarusian legal entity, with a few minor distinctions.

Opening an RO

The Belarusian Ministry of Foreign Affairs will issue a permit to open an RO for the purpose of performing non-commercial activities, as well as activities of a preparatory and auxiliary nature for a 3-year term on the basis of the documents provided (an application form, copies of the documents that prove the state registration of a legal entity, by-laws of the representative office, etc.). The RO operates on the basis of regulations approved by the head company, and the head of the RO acts on the basis of a power of attorney issued by the head company. The power of attorney must be issued and legalized (or apostillized) in accordance with established procedures.

The state duty to open an RO equals to 65 basic amounts (approximately USD 760) for one year.

According to Belarusian legislation, an RO must register with the tax authorities, keep accounting records and pay taxes in accordance with the established procedures.



Types of legal entities

The three most common types of legal entities under the Belarusian Civil Code are joint stock companies, limited liability companies and unitary enterprises. These are regulated by the Law On Business Entities and the Civil Code, respectively. The establishment of banks and insurance companies is regulated by separate legislative acts.

Joint-stock companies

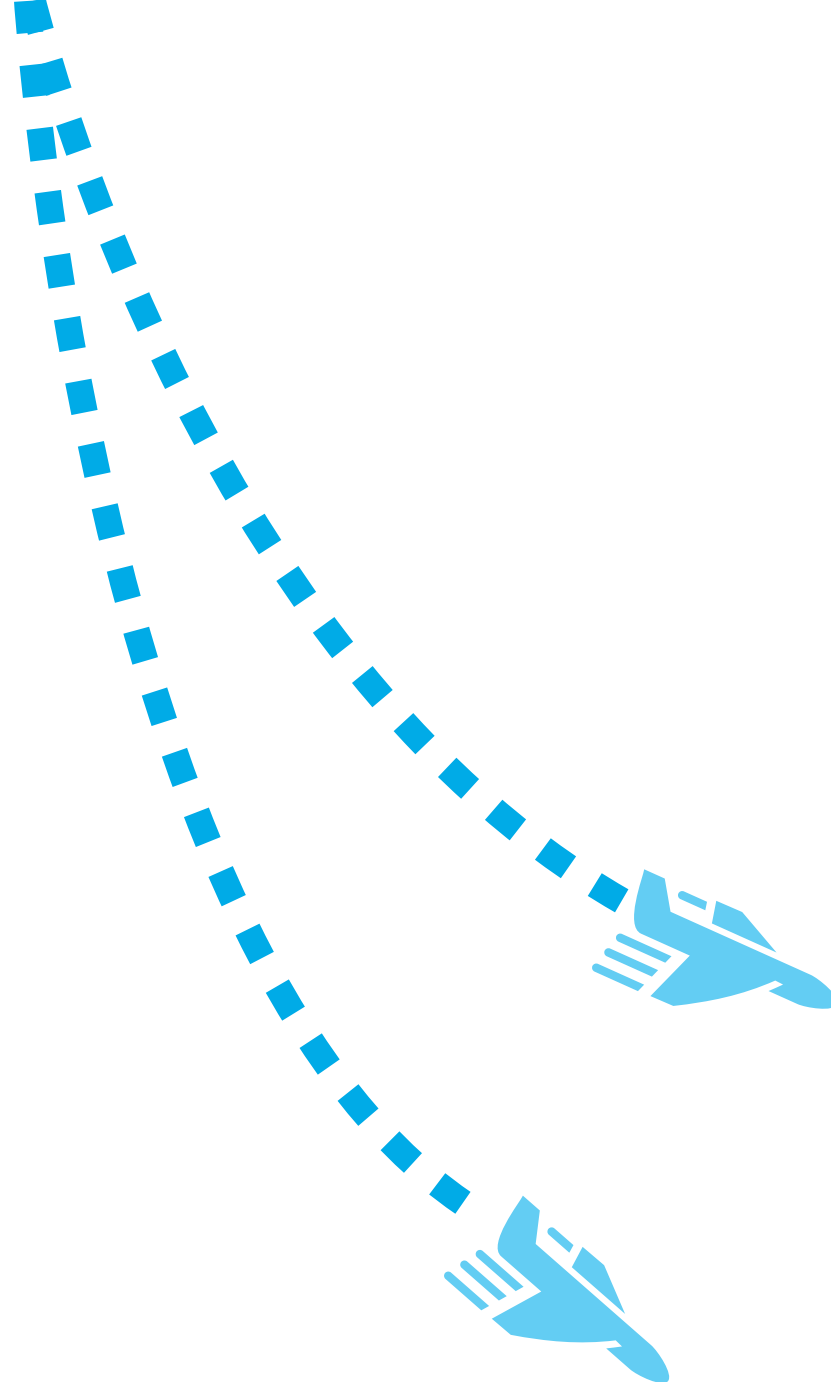
Joint-stock companies (JSCs) are defined as companies whose capital is divided into a definite number of shares. A JSC may be either open or closed, and is deemed open if its shares are distributed to the general public without permission from other shareholders. A JSC is deemed closed if the distribution of its shares requires the consent of other shareholders, and/or shares are distributed only to certain categories of individuals. Both types of JSCs may issue privileged shares of up to 25% of the statutory capital.

Open joint-stock company (OJSC, "OAO")

An open joint-stock-company (OAO) allows for an unlimited number of shareholders. Subject to disclosure requirements, an OAO is the only form of legal entity whose shares may be openly traded. The minimum charter capital should be equal to 400 basic amounts (approximately USD 4 665).

Closed joint-stock company (CJSC, "ZAO")

The most common type of JSC is a closed joint-stock company (ZAO). Shareholders enjoy preemption rights to any shares offered for sale by a retiring shareholder. There is no obligation to publish the accounts of a ZAO, and the shares are only distributed among its founders or within another predetermined group of individuals. A ZAO may not hold an open subscription of shares for an unlimited group of people. The minimum charter capital should be equal to 100 basic amounts (approximately USD 1 165).



Limited Liability Company (UC, “ООО”)

An LLC/ООО is defined as a company, whose capital is divided into ownership interests (units), the number of members of which should not exceed 50. There is no established minimum amount of charter capital. An ООО (along with a unitary enterprise) is the most flexible type of company. Units are not shares, and they fall outside the scope of Belarusian securities law. One drawback of an ООО for minority participants is that any participant has the right to withdraw from the company and is entitled to require the other participants to purchase or redeem their units at a pro-rata value.

Unitary enterprise (UE)

A unitary enterprise is defined as a commercial organization that has no ownership rights to the assets transferred to the company by the owner of these assets. This essentially means that the company is not the owner of its property. A unitary enterprise may have only one founder.

Instead, the founder of the company remains the owner of the assets, which may not be divided into shares. There is no established minimum amount of charter capital. The simple management structure of this type of an entity often makes it the vehicle of choice for foreign investors.

Registration procedure for a legal entity

An application-based principle of registration is applicable in Belarus. Furthermore, the requirement for a minimum amount of charter capital was abolished for all legal entities, except for ZAO, OAO.

The registration procedure includes the following stages:

- State registration (including tax registration, registration with the State Social Funds,
- the State Statistical Board, Belgosstrakh etc.)
- Stamp or seal production
- Opening bank accounts

The registration authorities should decide whether to register a legal entity or not on the day the documents are submitted.

Five days are now needed to obtain all of the documents necessary for tax registration, registration with the State Social Funds, the State Statistical Board, Belgosstrakh, etc. Thus, the whole process usually takes from 7 to 10 days. Joint-stock companies are required to register their share issue with the State Securities Commission of the Ministry of Finance of the Republic of Belarus and this increases the time required for registration.



Taxation of businesses in Belarus

1. Profit tax

1.1. General information

Profit tax is levied on gross profit, which is determined by adding the following sums:

- Profit from the sale of goods/work/services and property rights
- Income from non-sales operations, minus the deductible expenses incurred in connection with these operations

The profit or loss from the sale of goods/work/services or property rights (except for fixed or intangible assets) is defined as the difference between the receipts from their sale, less sales taxes and duties paid from the receipts, and the deductible expenses associated with the production and sale of goods/work/services or property rights.

The profit or loss from the sale of fixed and intangible assets is defined as the difference between the receipts from the sale of the fixed or intangible assets, less taxes and duties payable from the receipts, and the depreciated cost of the fixed or intangible assets, as well as the cost of the fixed or intangible assets sold.

Non-sales income is offset by non-sales expenses and then included into taxable profit. Non-sales income includes, among other things, the following:

- Income from participation in other organizations, including dividends received from sources outside the Republic of Belarus
- Income from the sale of shares and profit from the liquidation of an investee
- Positive exchange differences
- Income from previous years recognized in the current tax year
- Fines, penalties and interest received for breaking contractual obligations, and compensation for losses recognized by the debtor or payable by the debtor under a court ruling
- Interest on loans and deposits
- Property/work/services or property rights, received free of charge
- Other income

Since 1 January 2013 share premiums are not subject to taxation for profits tax purposes.

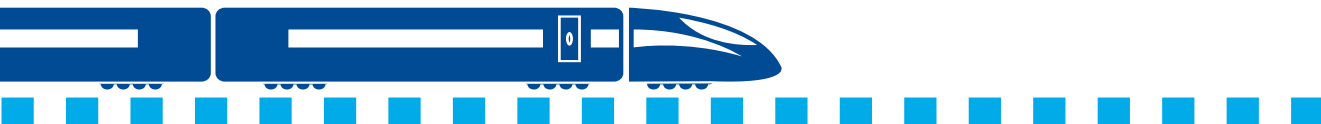
Non-deductible expenses

There are some expenses that are related to business activities but are deducted for profit tax purposes only within the deductible limits determined by legislation. These expenses include business trip expenses and expenses associated with payments of energy resources.

Most expenses are deducted in full for tax purposes, including the costs of consulting, marketing, information services, advertising and payroll expenses. Starting from 2015, any expenses shall meet specific conditions to be qualified as deductible expenses if an entity has insufficient equity and in the case of payment for the listed services rendered by related parties. These costs can be attributed to expenses within the amount of the established maximum limit specified in accordance with the legislation on accounting for interest on controlled debt obligations.

The interest pertaining to controlled debt obligations to a foreign organization is included in the deductible expenses in an amount not exceeding the maximum amount determined in accordance with legislation.





The controlled debt obligation is the debt of a Belarusian legal entity:

- to a founder/participant, being a foreign entity or individual that is not a tax resident of the Republic of Belarus, who owns over 20% of the shares/units/equity interest directly or indirectly of such a Belarusian entity as at the last day of the corresponding tax period;
- to another Belarusian or foreign entity recognized as a related party of such a foreign founder/participant;
- to another party to which such a related party and/or foreign founder/participant comprises a guarantor or commits itself to provide for the settlement of the Belarusian entity's debt.

For Belarusian entities that manufacture excisable goods, the expenses on controlled debt obligations are accounted for within the maximum limit only on the controlled debt obligations payable to a foreign founder (participant) that exceed the difference between the Belarusian entity's assets and liabilities during the tax period. The expenses on controlled debt obligations are accounted for within the maximum limit only on the controlled debt obligations payable to a foreign founder/participant that exceed the difference between the Belarusian entity's assets and liabilities during the tax period by three or more times as at the end of the tax period.

Controlled debt obligations:

- To a foreign founder/participant include the following types of debt:
 - on debt securities;
 - on engineering, marketing, consulting, information and management services, on commission for the transfer/provision of property rights to an item subject to industrial property rights;
 - on forfeit/fines/interest and other penalties including reimbursements for losses and for breach of contractual obligations.
- To a Belarusian founder/participant include:
 - debt on engineering, marketing, consulting, information and management services, on commission for transfer/provision of property rights to an item subject to industrial property rights.

Expenses not related to commercial activities are not deductible with regard to calculating taxable income.

The amount of profit (income) tax paid in a foreign state may be offset against the amount of profit tax paid to the Belarusian government, irrespective of whether or not this offset is provided for by a relevant double tax treaty. In order to receive said offset, the payer is required to submit a certificate confirming the payment of tax in the foreign state.

1.2. Payers

According to the General Part of the Tax Code, organizations pay Belarusian profit tax.

1.3. Tax base

The tax base for profit tax is determined as taxable income expressed in monetary terms.

Opening up new opportunities

1.4. Tax benefits

The tax profit is reduced by tax benefits which are as follows:

a) The amount of profit transferred to the residents of the Republic of Belarus for the construction and/or reconstruction of enterprises, institutions and other organizations involved in public health, public sector, public education, social welfare, culture and sports and religion, which are registered with and funded by the state up to a maximum of 10% of the tax profit;

b) The amount of gross profit of the enterprises where disabled individuals make up more than 50% of the average total workforce for the period from the beginning of the year through the reporting period.

Furthermore, the taxpayers may deduct part of the historical cost of property used in business activities or the cost of investments into property due to their reconstruction, modernization, renovation:

- up to 10% of the value of buildings, transfer devices, investments into their reconstruction;
- up to 20% on machinery, equipment, vehicles, and intangible assets, investments into their reconstruction

The deduction can be applied only from the month when the entity started to accrue depreciation of the property or from the month when the reconstruction expenses increased the cost of the property.

1.5. Tax rate

The tax rate applied to the majority of taxable income of organizations is 18%. A 12% rate is applied to dividends.

1.6. Tax period

The tax period for profit tax is a calendar year, and a calendar quarter comprises the reporting period.

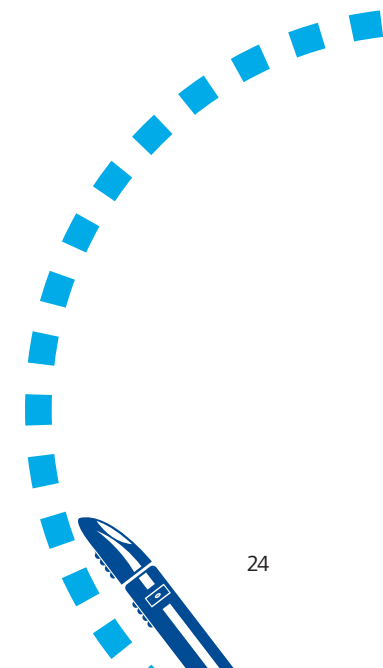
The tax period for profit tax on dividends accrued by Belarusian entities is a calendar month.

Taxpayers should submit a tax return to the tax authorities once per quarter, by the 20th of the month following the reporting quarter. Tax for quarters I through III has to be paid by 22 April, 22 July, 22 October, respectively.

Profit tax for quarter IV of 2015 shall be paid no later than on 22 December 2015 in the amount of two thirds of the profit tax amount calculated on the basis of the profit tax charged for quarter III of 2015 with the subsequent recalculation of its total amount for 2015 and the estimation of the profit tax amount payable or recoverable no later than 22 January 2016.

1.7 Loss carry-forward

Since 2012, the Republic of Belarus has introduced loss carryforward rules. Entities are entitled to carryforward loss, including losses from 2011, for the subsequent 10 years.



2. Value-added tax

2.1. General information

Value-added tax (VAT) is charged for the supply of the majority of goods, services and property rights in Belarus, and on most imports into Belarus.

2.2. VAT payers

VAT payers are as follows:

- Legal entities
- Trustees controlling sales of goods/work/services, ownership rights in the process of fiduciary management of the property for the benefit of trustors and/or beneficiaries
- Individual entrepreneurs whose turnover for the previous three consecutive months exceeds the equivalent of EUR 40,000, or who voluntarily elect to pay VAT
- Entities and individuals regarded as taxpayers in relation to the handling of goods through Belarusian customs in compliance with Belarusian legislation and international treaties of the Republic of Belarus that form part of the international treaty framework of the Customs Union.

There are no special provisions for VAT registration in Belarus. A company may only be registered as a taxpayer with regard to the payment of all taxes.

2.3. Turnover that is not subject to VAT taxation or is exempt from VAT

In general, the following transactions are not subject to VAT:

- Property contributions from the legal entity's founders/ participants to its charter fund
- Compensated and gratuitous transfers of goods/work/ services and property rights within the same entity
- Transfer of property due to gratuitous use
- Supply of goods placed under the re-export customs procedure
- Cost of meals, subscription to printed mass media, cost of work/services paid for by the company for the benefit of its own employees, their families and their retired employees
- Sale of securities (including initial offerings made in accordance with legislative requirements), forward and future contracts, options and other concurrent financial instruments from the derivatives market

Major VAT-exempt activities include:

- The supply of goods/work/services and the lease of any property in the Republic of Belarus to diplomatic missions and consular institutions of foreign states for their official activities and the sale of goods/work/ services to diplomatic and/or administrative and technical personnel of such foreign diplomatic representative offices and institutions (including members of their families residing with them) for personal use
- Rendering insurance/co-insurance/reinsurance services, including paying commission fees paid to insurance brokers by insurance companies for brokerage services
- Rendering certain medical services; the sale of certain pharmaceuticals and medical equipment
- Sale of the rights to certain items of industrial property
- Certain housing and communal services provided to individuals
- A number of services provided by banks and non-banking financial institutions, etc.

2.4. Rates

VAT is levied at the following rates:

- 0% on goods exported to Customs Union member states, including goods exported on the basis of lease agreements/contracts, loan agreements and contracts for the production of goods, loading, shipment and transshipment, and other similar services directly related to the sale of exported goods. 0% is also levied on exported transportation services, exported work or services related to the production of goods using raw materials supplied by a customer, maintenance work or services, modernization, the re-equipment of aircraft and their engines, railway vehicle units or services performed for foreign companies or individuals, etc.
- 10% on the supply of goods produced through the cultivation of plants (excluding flowers and decorative plants), wild berries, nuts and other fruit, mushrooms, other wild growing products, animal breeding (excluding animals used in fur production), fishery and honey bee production, as well as (or) on the importation and/or supply of foodstuffs and goods for children in Belarus, in accordance with the list determined by the President of the Republic of Belarus
- 20% on other goods, work and services not listed above

Moreover, the law establishes rates of 9.09% and 16.67% to be applied to goods sold at regulated retail prices.

2.5. Tax base

Taxpayers calculate their VAT base as the sale price of goods (work, services), including excise, if applicable.

For commissioners and agents, the tax base is based on commission or fee income.

A shipping company's VAT base is the amount of shipping fees in accordance with a shipping contract.

For imports, the tax base is the customs value plus customs duty and excise where applicable.

If goods are sold at regulated retail prices that include VAT, the VAT base will be the difference between the sale and acquisition price of these goods. Both the sale price and acquisition price should include VAT. The VAT base for the sale of securities, reusable packaging and health resort vouchers.

The free-of-charge transfer of goods/provision of services/execution of work is also subject to VAT, except for non-taxable transfers. The tax base is determined as the cost price of the goods/work/services in question, or as the acquisition price in the case of a free-of-charge transfer of acquired goods.

The VAT base for processed goods exported from the area outside the customs territory, the VAT base is determined as the cost of their processing.

2.6. VAT output, VAT input and offset rules

The invoice method of calculating VAT liabilities is applied in Belarus. The VAT liability of a taxpayer is calculated as the product of the tax base and the tax rate.

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VAT payable to the authorities is determined as the difference between VAT calculated by taxpayers and charged to customers (output VAT) and VAT paid to suppliers of goods/work/services (VAT invoiced to taxpayers or input VAT), which is related to production/sales activities, or other VAT-able transactions.

If input VAT exceeds output VAT, the payer is not obliged to pay VAT, and the difference is carried over, without penalty, and is either deducted from the tax liability in the next period, or refunded to the payer. Input VAT on purchased business supplies is generally recoverable when the supplies are received, or when customs VAT is paid and accounted for in the book accounts. Nevertheless, legal entities that operate on a cash basis (i.e. whose profit is accounted for according to the accounting policy when both delivery and payment have taken place) can only offset previously paid VAT.

VAT is recoverable on the basis of primary documents (customs declarations, waybills, delivery/acceptance certificates) that indicate VAT invoiced by suppliers and to be paid to them.

If the purchased goods/work/services, property rights are used in production and/or if tax-exempt goods/work/services, property rights are sold, the VAT paid upon the purchase should be included into the taxpayer's deductible expenses, except for the VAT amounts presented while selling, or paid while importing property and intangible assets.

One of two VAT offset methods may be used by taxpayers in their accounting policy: the separate accounting method or the VAT-able supply ratio method.

Starting from 2011, taxpayers are allowed to offset VAT paid on fixed and intangible assets in the previous tax period, in the current tax period. These amounts are to be offset in equal portions of one twelfth in every reporting period (if a calendar month is recognized as the reporting period) or one quarter (if a calendar quarter is recognized as the reporting period). However, VAT from previous tax periods shall be offset in full, i.e. regardless of the amount of the estimated VAT amount.

Organizations that do not carry out any entrepreneurial activities in Belarus should include input VAT amounts in the cost of purchased goods/work/services and property rights.

2.7. Import VAT

VAT is collected by the customs authorities when goods are imported into the customs territory of the Republic of Belarus. VAT on goods imported into Belarus from Customs Union member states (Russia and Kazakhstan) is collected by the Belarusian tax authorities. Depending on the type of goods imported, VAT is applied at a rate of either 10% or 20%.

Certain goods may be exempt from import VAT. These include, but are not limited to, goods and cash registered as foreign aid, goods imported from the territory of member-states of the Customs Union for official use by foreign diplomatic representative offices (or for personal use by their diplomatic and/or administrative and technical personnel) or similar establishments, equipment for research activities, drugs, medical production, prosthetic and orthopedic appliances and medical equipment, goods for children and certain food products specified in the list approved by the President of the Republic of Belarus.

Creating value for growth



2.8. Payments and filing tax returns

The standard VAT period is a calendar year; the VAT reporting period is a calendar month or a calendar quarter at the taxpayer's discretion. A VAT return must be provided by the 20th of the month following the reporting period, and the tax is calculated based on the amount of tax accumulated from the beginning of the year. VAT is payable by the 22nd of the month following the reporting period.

2.9. Tax Free

Since 1 January 2013 a tax free scheme has been initiated in the Republic of Belarus. Foreign individuals have the right to the refund of VAT for purchases made in retail stores over the course of one day in the amount exceeding BYR 800 thousand (about USD 50). This right will be applied in the case that such purchases are exported from the territory of Customs Union (Belarus, Russia and Kazakhstan) within 3 months from the day of goods acquisition.

The following goods are not subject to VAT return:

- goods exempted from VAT when imported to the territory of the Republic of Belarus and (or) sold on the territory of the Republic of Belarus;
- goods to which the 10% rate of VAT is applied;
- excise goods.

The sellers will be able to apply a 0% VAT rate to such goods when receiving confirmation of the export of the goods from the territory of the Customs Union. The document confirming the transfer of the goods from the territory of the Customs union is considered to be a special VAT refund cheque containing necessary details including the stamp of the customs authority confirming the transfer of goods outside the Customs Union.

3. Excise Tax

3.1. Taxpayers

The following entities are excise tax payers:

- Legal entities
- Individual entrepreneurs
- Individuals liable for paying excise tax when importing goods to the territory of the Republic of Belarus under the legislation.

3.2. Objects of taxation

Excise tax is imposed on both the import and manufacture of a specific list of goods, which includes:

- Alcohol, spirits, beer, beer cocktails, cider, tobacco
- Inedible alcohol-containing products
- Oil for diesel and/or petrol engines
- Petrol, diesel for automobiles

The applicable rates can be fixed or expressed as a percentage of the cost of such goods.

Exports of excisable Belarusian goods are exempt from excise tax.

Excise duty to be paid is accrued on a monthly basis on the sale amount of excisable products which are manufactured and/or imported, and used for the own purposes of the company (e.g. for testing and sampling purposes).

Excise tax is payable on a monthly basis by the 22nd day of the following month.

Certain excisable goods may only be sold in Belarus if they bear a special excise stamp. Prior acquisition of special excise stamps by a taxpayer should provide security for payment of customs duties and taxes (excise and VAT).

Focusing on your priorities

4. Property tax

4.1. Taxpayers

The following entities pay property tax:

- Legal entities
- Individuals

Please, note that if companies rent property in the territory of the Republic of Belarus from foreign entities that do not operate in the country's territory via a permanent representative office and from natural persons, recognized tax residents of the Republic of Belarus or not, the tax from the property cost shall be paid by the lessee.

4.2. Objects of taxation

Tax is imposed on the residual cost of buildings and their parts and car parks, as well as production and non-production buildings that are owned or are in the possession of the taxpayer, and on the cost of buildings and their parts, the construction of which was not finished within the deadline set out in the design and estimate documentation.

It should also be considered that buildings include not only real estate in the ordinary sense of the term (construction system), but also other items classified as buildings and real estate in accordance with the legislation for the purpose of estimation of the standard service life for items of property.

4.3. Tax rate

The annual property tax rate is 1% for legal entities and 0.1% for individuals. A 2% rate is applied to the cost of projects of above-standard.

Local Councils of Deputies have the right to increase/decrease the real estate tax rate for certain categories of taxpayers by no more than two and a half times.

4.4. Tax allowances

Tax is not imposed on:

- Permanent structures (buildings and facilities), their parts being social or cultural facilities, state and non-governmental housing facilities (excluding those that in the ownership, under economic management or operating control of organizations based in residential buildings containing a number of flats, where these buildings do not house individual residents)
- Permanent structures (buildings and structures) that have been temporarily put out of operation under the legislation of the Republic of Belarus
- Permanent structures (buildings and structures) designed to protect the environment and/or improve environmental conditions, as specified in the list approved by the President of the Republic of Belarus
- General-purpose roads (including roads with drains, pavements, artificial constructions, street furniture to organize road traffic, engineering equipment, defense constructions) and associated infrastructure

- Permanent structures (buildings and facilities) of an agricultural nature used to grow crops, for bee-keeping or for fish and animal husbandry
- New permanent structures (buildings and facilities) belonging to an organization that were first put into service within a year of being commissioned

4.5. Payments

Tax is calculated annually for legal entities, subject to the existence of permanent structures (buildings and structures), their parts, car-places as of 1 January of the respective calendar year. This is based on the residual cost and the cost of buildings and structures of above-standard construction in progress, and the approved annual tax rates. Tax for individuals is set by the tax authorities according to an assessment methodology of the permanent structures (buildings and facilities), their parts and car-places approved by the President of the Republic of Belarus.

Legal entities should pay tax at their choice either as a flat payment – once a year in the annual amount of real estate tax by 22 March of the current tax period or quarterly - by the 22nd day of the third month of each quarter in $\frac{1}{4}$ of the annual amount of real estate tax.

If the taxable item changes during the year the tax amount shall be recalculated.

The amount of real estate tax paid to a foreign state may be offset against the amount of real estate tax paid to the Belarusian government, irrespective of whether such an offset is provided for by a relevant double tax treaty or not. In order to receive this offset, taxpayers are required to submit a certificate confirming the payment of the tax to the foreign state in question.

5. Environmental tax and mining tax

5.1. Taxpayers

The following entities are payers of environmental and mining tax:

- Legal entities
- Individual entrepreneurs

The owners of production waste pay for production waste disposal at waste disposal facilities.

5.2. Objects of taxation

The following items are subject to environmental tax:

- Volume of air pollution emissions
- Volume of sewage water pollutants
- Volume of production waste subject to storage and/or underground disposal
- Volume of material harmful to the ozone layer (including that contained in products) imported into Belarusian territory.

The volume of extracted/processed natural resources according to the list specified (including oil, sand, stone, surface and ground water, ground for earthwork structures, clay, clay sand, sand clay, tripoli, iron stone, peat containing 40% water; amber, gold, bog oak, Burgundy snail, etc.) is subject to the mining tax.

Ozone-destroying materials imported into Belarusian territory are taxable at the rate of BYR 76 900 (approximately USD 5) per kilogram of harmful ozone material (including that contained in products).

Rates of the environmental tax for air pollution emissions, sewage water pollutants, storage and underground disposal of production waste as well as natural resource extraction/processing are determined pursuant to the Appendices to the Special Part of the Tax Code of the Republic of Belarus.

The co-efficient is determined for environmental tax rates in amounts varying from 0.006 to 0.9, depending on the type of waste.

5.3. Payments

In accordance with the general rules, environmental tax is paid on a quarterly basis not later than on 22nd day of the month following the reporting quarter. Taxpayers have the right to elect one of the taxation schemes on the basis of the established annual volume of emissions: it can be paid either once a year not later than 22nd April of the calendar year in the amount of tax calculated for the respective year or quarterly not later than 22nd day of the month following the reporting quarter in the amount of 1/4 of environmental tax calculated for the respective year.

Taxpayers should pay mining tax not later than on 22nd day of the month following the expired tax period/quarter.

6. Land tax

Both Belarusian and foreign legal entities and individuals that have been granted lifetime ownership rights to plots of land in Belarus with hereditary succession, or permanent or temporary use of the land, or to whom land has been transferred into private ownership, are deemed to be payers of land tax.

The object of land tax is a plot of land in the territory of the Republic of Belarus that is owned, held or used by the taxpayer.

The amount of land tax on agricultural land is determined based on the cadastral value of the plot of land and is established as an annual fixed payment per hectare of the plot of land; if the cadastral value is not established, the agricultural land tax rate is calculated in the amount of the average rate of the land tax determined for every region.

The amount of land tax on populated land is calculated in percentage terms, based on the cadastral value of the plot of land, depending on the use of the land.

The amount paid on leased plots of land is specified in the relevant contract.

7. Simplified system of taxation

Both legal entities and individuals may qualify for the simplified system of taxation within a particular calendar year, provided that they meet the criteria below throughout the first nine months of the prior year:

- Total headcount is not in excess of 100 employees in average
- Total gross revenue is not in excess of BYR 10 300 billion (approximately USD 670 thousand) for the first 9 months of the year

The simplified system of taxation replaces the following taxes and payments: profit tax (except for the profit tax with regard to dividends, profit from operations with securities and profit from the alienation of shares in charter capitals), environmental tax and VAT, where the total headcount does not exceed 50 employees and total revenue does not exceed BYR 9 400 billion (approximately USD 610 thousand).

Organizations applying the simplified system of taxation calculate and pay property tax in accordance with the standard procedure in following cases: with regard to permanent structures (buildings and structures), their parts, car-places rented out/leased as well as transferred into use for fee or free of charge; in case the total area of the permanent structures (buildings and structures), their parts, car-places owned by a company exceeds 1,500 m².

The tax base is the gross revenue, comprising the proceeds from goods/work/ services, property rights and non-operating revenue over the reporting period. The tax rates are as follows:

- 5% for non-VAT payers (both legal entities and individual entrepreneurs)
- 3% for VAT payers (both legal entities and individual entrepreneurs)
- 3% with regard to sales proceeds received from retail sales of goods acquired (for companies engaged in retail sales who do not pay VAT with the number of employees of not more than 15 average for period from the beginning of the year and for individual entrepreneurs whose gross revenue on a cumulative basis from the beginning of the year does not exceed BYR 4.1 billion).

8. Offshore duty

8.1. Offshore duty payers

Offshore duty is paid by Belarusian organizations and Belarusian individual entrepreneurs.

8.2. Objects of taxation

The following transactions are subject to offshore duty:

- Transfers of monetary funds by a resident to a non-resident in an offshore zone or to another company, to which an offshore resident has obligations, or into an offshore bank account
 - Non-cash settlements with any non-resident registered in an offshore zone
 - Transfers of property rights and/or obligations between parties, one of whom is a resident of the Republic of Belarus and the other is a non-resident registered in an offshore zone
- Offshore duty does not apply to the following transactions:
- Transfers of monetary funds from Belarusian banks to non-residents who own international payment systems by using VISA, MasterCard and American Express bank payment cards registered in offshore zones and/or have bank accounts in these zones in accordance with agreements signed with the specified non-residents (contributions, license fees, guarantee deposit, payments for rendering the services on preparing, providing and certifying software and hardware units, other payments connected to participation in such payment systems)
 - Settlement of liabilities to non-residents in a non-monetary form and transfer of obligations due to a change of the parties to a liability between a resident of the Republic of Belarus and a non-resident party registered in an offshore zone, regarding liabilities not subject to offshore duty on a transfer of monetary funds in accordance with the provisions listed above

- Transfer of monetary funds by the Ministry of Finance of the Republic of Belarus:
 - to STANDARD AND POOR'S FINANCIAL SERVICES LLC (Delaware State, United States of America) in accordance with their agreement on providing access to the services of Rating Direct Sovereigns All Regions information base dated 13 August 2012
 - to BLOOMBERG FINANCE L.P. (Delaware State, United States of America) in accordance with the agreement on providing access to the services of Bloomberg Professional information and analytical system dated 25 November 2011.

8.3. Tax rate

The offshore duty rate is 15% of the transferred sum.



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Belarusian-sourced income of foreign companies

Elimination of double taxation

The Republic of Belarus has signed 70 international double tax treaties providing for a lower tax rate or full tax exemption. Where there is no valid double tax treaty, Belarusian tax legislation permits profit tax and real estate tax paid in foreign countries to be offset against the payment of the relevant taxes in the Republic of Belarus.

In order to take advantage of a lower tax rate or tax exemption in accordance with an international treaty, prior to payment/accrual the foreign company must provide the Belarusian tax agent with the confirmation of their tax residency, signed by a competent authority in the foreign country. The Belarusian tax authorities may also require a Belarusian or a Russian translation of the confirmation.

If this confirmation is not provided prior to payment/accrual and the foreign company suffers a withholding rate greater than that stipulated by the agreement, it is possible to apply for a refund within three years of making the payment. Upon receiving proper documentation, the Belarusian tax authorities should refund any excess tax no later than one month after the application date.

Foreign banks and airlines are allowed to confirm their permanent residence with an extract from such international publications as The Bankers' Almanac, BIC Directory, or The Airline Coding Directory.

Withholding tax

Withholding tax on the income of foreign legal entities that do not operate in the Republic of Belarus through permanent establishments is paid, in particular, on the following types of Belarusian-sourced income for foreign entities that are resident in the Republic of Belarus:

- Dividends – 12%
- Income from the disposal of shares in charter capital/stocks/interest of legal entities located in Belarus – 12%
- Royalties (including payments for leased property) – 15%
- Licenses – 15%
- Interest and other income from debt securities – 10%
- Freight (charges for international shipping and forwarding services, except for international transportation by sea and fee for tickets on passengers international transportation) – 6%
- Other income - 15%

For tax purposes, royalties include payments for the use of or granting the right to use property and rights to copyrighted items, including works of literature (including, for tax purposes, software), art, science and other copyrighted work. This also extends to objects of allied rights, including the creation of soundtracks to programs by broadcasting companies, as well as payments for any license, patent, trademark, service mark, business name, drawing, utility model, diagram, formula, industrial standard or process. They also include payments for or any information regarding industrial, commercial or scientific research (including know-how), payments for the use of property in Belarus or for granting the right to use such property. They exclude payments for international (continental and intercontinental) channels and the leasing of telecommunications networks.

Other types of income include, but are not limited to, income derived from training services, information, management, advertisement, insurance and audit services, and income derived from the disposal of real estate located in Belarus.

Social insurance

Insurance contributions to the Fund of the Social Security Fund of the Ministry of Labor and Social Protection

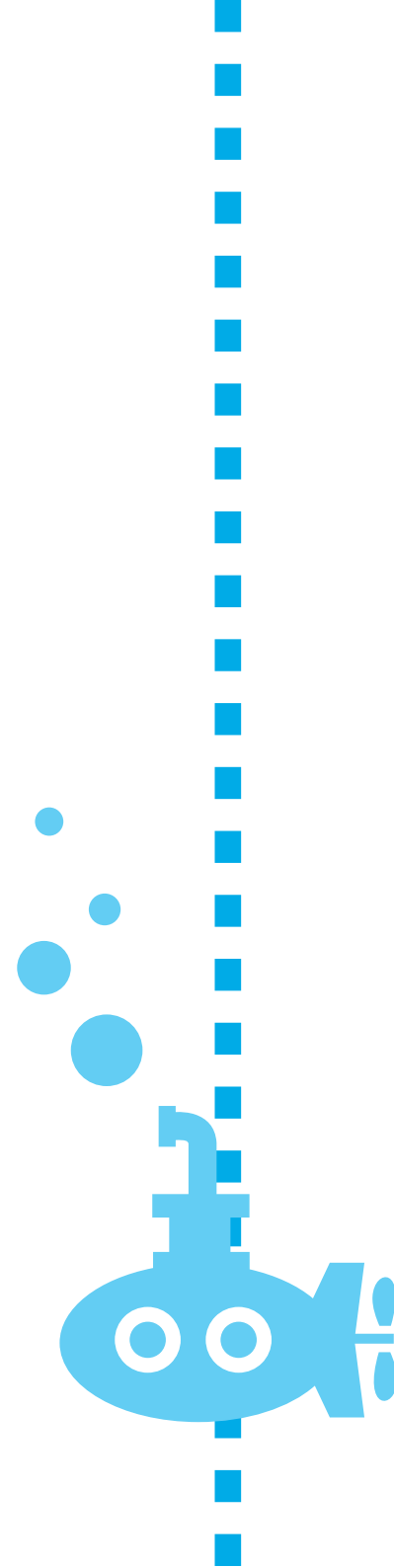
Under the common rules mandatory insurance contributions are paid to the Fund by:

- employers — legal entities (including legal entities with foreign investments operating in the territory of the Republic of Belarus); their representative offices, branches; individual entrepreneurs, lawyers and private notaries employing people under labor agreements, civil-law agreements for rendering services, performing work and creating items of intellectual property; natural persons who employ people under labor agreements and legal entities that employ people on the basis of their membership/participation in the legal entities of any organizational and legal form;
- employees — citizens of the Republic of Belarus, foreign citizens and stateless persons working under labor agreements and/or civil-law agreements, as well as on the basis of their membership/participation in the legal entities of any organizational and legal form.

Payments of any kind in monetary and/or in kind accrued for the benefit of the working people, including remuneration under civil-law agreements, gifts, aid, etc. are subject to accrual of mandatory insurance contributions for employers and employees, except for the cases set forth by the list of payments exempted from the accrual of mandatory insurance contributions.

The maximum amount of the contribution calculation basis is limited to an amount five times as much as the salary of employees in the Republic of Belarus for the month preceding the month when mandatory insurance contributions are paid. Any income above the specified amount is not subject to insurance contribution payments.

As at 31 January 2015, the average salary of employees comprised BYR 6 805 978.



Mandatory insurance payments against retirement age, disability and survivors (retirement insurance) comprise:

- 28% — for employers;
- 24% — for employers involved in the manufacturing of agricultural products making up over 50% of the total volume of the manufactured products;
- 29% — for natural persons who pay mandatory insurance contributions to Belgosstrakh on their own;
- 1% — for working people.

The amount of mandatory insurance contributions on insurance against temporary disability, pregnancy and maternity, care of children under three years old, etc. comprises 6%.

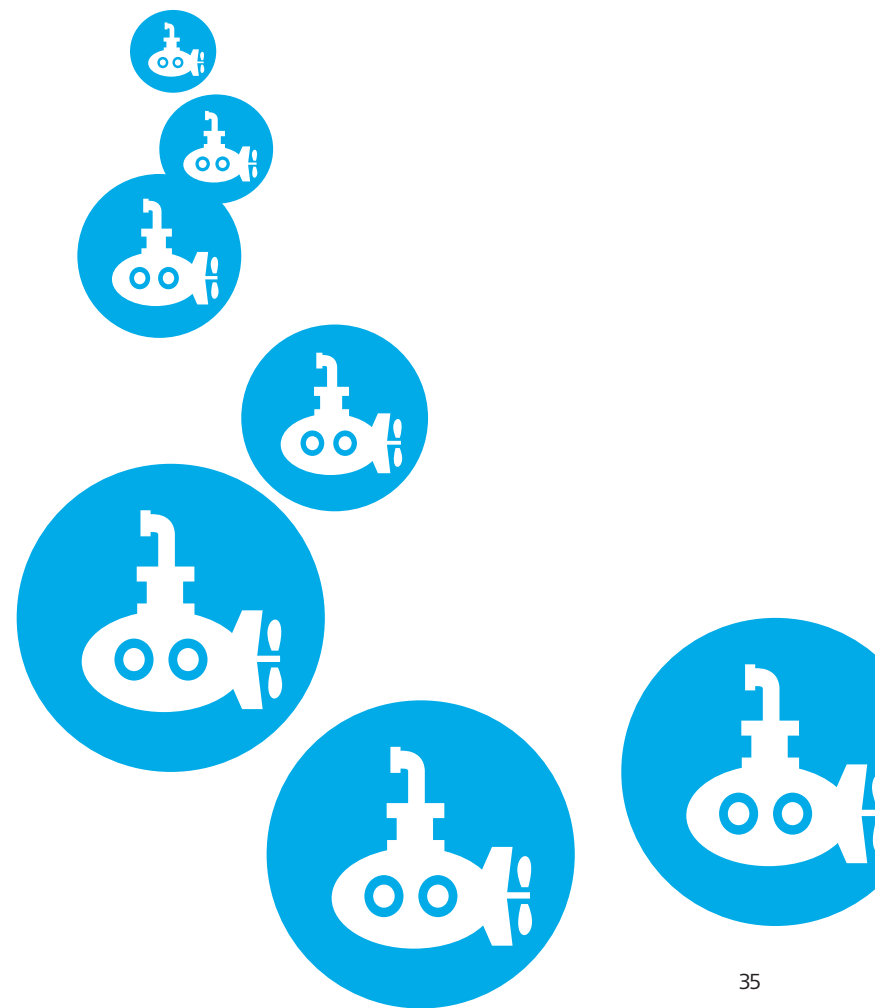
In consideration of the foregoing, as a rule, the total insurance contribution paid by organizations employing people comprises 34%. Moreover, such organizations withhold contributions of 1% from the income paid to the employee.

Insurance against accidents

The Republic of Belarus has mandatory insurance against occupational accidents and diseases. Payments of any kind accrued to the people subject to mandatory insurance against occupational accidents and diseases (hereinafter the insured), except for the cases set forth for by the list of payments exempted from the accrual of such insurance contributions.

According to the legislation the insured include citizens performing work under a labor agreement/contract, civil-law agreement in the territory of the policy holder and acting under the control of the policy holder and some other people.

The amount of insurance contributions is defined by the policy holder on the basis of the rates annually approved by the President of the Republic of Belarus. The insurance contributions are paid to the Belarusian Republican Unitary Insurance Enterprise Belgosstrakh.



Taxation of individuals

Personal income tax in Belarus

Payers

According to the law, individuals are regarded as personal income tax payers.

Belarusian citizens and foreign nationals who are tax residents are taxed on their worldwide income paid in cash or in kind, and on any material benefits received during a calendar year.

Individuals who are not considered to be tax residents of Belarus (the duration of their stay in the Republic of Belarus is 183 days or less) pay tax on their Belarusian-sourced income only.

The actual duration of stay is the period of time an individual stays in Belarus, and is not interrupted by trips abroad for medical treatment or business trips.

The employer should calculate, withhold and remit personal income tax to the government on behalf of the employee.

Personal income tax rates

A flat rate of 13% is applied in Belarus both to tax residents and non-residents.

However, other rates apply to specific income:

- 9% – Income received by individuals from the residents of the HT Park under labor contracts (except for support personnel who service and guard premises, rooms or plots of land)

- 16% – Income received by Belarusian entrepreneurs (private sector notaries public, lawyers) from entrepreneurial activities /private notary activities/ practice of law.

Taxable income

Taxable income is defined as any and all income, irrespective of the source, less allowable tax deductions (standard, social, property and professional).

There are limited types of income that are tax-exempt in Belarus:

- Pecuniary aid paid by the employer that is the taxpayer's principal place of employment is exempt from tax at the rate of BYR 13.19 mln (approximately USD 850) during the year, or of BYR 870 thousand (approximately USD 55) during the year if paid by other employers
- Monetary funds received from individuals who are not individual entrepreneurs totaling BYR 43.66 mln (approximately USD 2 835) from any source within the tax period as a result of gift or immovable property under a rental contract
- Income in the amount not exceeding BYR 16 mln (approximately USD 1 thousand) received from companies and individual entrepreneurs which are the primary place of employment by way of payment for the insurance services rendered by insurance companies of the Republic of Belarus



- Income received by way of inheritance
- Income from the state securities of Belarus and bonds issued by banks
- Interest income from bank accounts and deposits with a bank situated in Belarus
- It is the responsibility of the individual to declare his/her income and to pay private income tax to the authorities.

Tax returns

Individuals must calculate their PIT liability and file a tax return/declaration in the prescribed format if the following applies:

- Income has been received from other individuals who are not approved tax agents
- Income has been received by the tax resident from sources based abroad
- Other income withholding of PIT which is not charged by the tax agents; and income received in certain other cases.

Filing procedures

An individual who must file a tax return/declaration is required to do so no later than 1 March of the following tax year. The tax return should be submitted to the local tax authorities. In the tax return, the taxpayer must report all income received in the taxable year and specify every item, source, amount and date. Standard, social and property deductions may be made either by the employer (during the tax period) or by the tax authorities (at the time of filing the tax return). Taxable income is taxed at the rates listed above.

Belarusian tax liabilities calculated in accordance with the tax returns are payable by 15 May of the year following the tax year.

Elimination of double taxation

Belarus has signed a number of bilateral double tax treaties, which, under certain conditions, enable individuals to avoid taxation of the same income under the tax systems of two or more countries by applying tax exemption in one of the countries or reducing the tax rate.

Moreover, according to national legislation, personal income taxes paid in foreign countries may be credited against Belarusian PIT, provided that the documents confirming the amount of taxes paid into foreign budgets are shown to the Belarusian authorities.

In other words, a taxpayer may avoid double taxation without the application procedure for international tax treaties. Proper allowance must be made for the fact that the amounts of tax paid into a foreign budget cannot exceed the amount of tax calculated from the income in accordance with Belarusian legislation.



Customs Issues

Import duties

Effective from 1 January 2010, the rates of import customs duties have been set in accordance with the Unified Customs Tariff of the Customs Union of the Republic of Belarus, the Republic of Kazakhstan and the Russian Federation, and at present they are established by the Eurasian Customs Union. The most commonly applied customs duties rates are ad valorem, and are calculated as a percentage of the customs value of the goods. In addition, customs duties may be set at fixed rates per unit of measurement of goods (specific rates). A combination of both methods is also allowed (combined rates).

Import customs duty rates depend on the classification of the imported goods under the Trade Classification of Foreign Economic Activities of the Eurasian Customs Union.

With respect to goods originating from developing countries (Customs Union users of the Unified System of Customs Preferences), the import customs duty rate applied is 75% of the usual import customs duty rate in accordance with the Unified Customs Tariff of the Eurasian Customs Union.

With respect to goods originating from the least developed countries (Customs Union users of the Unified System of Customs Preferences), the import customs duty rate applied is 0% of the usual import customs duty rate in accordance with the Unified Customs Tariff of the Eurasian Customs Union.

The list of developing countries and the least developed countries using the Unified System of Customs Union Tariff Preferences and the list of goods originating from developing or the least developed countries that are granted tariff preferences when imported into member countries' unified customs territory are determined by the Customs Tariff Regulation Commission.

Special customs procedures

The Customs Code of the Customs Union provides for 17 customs procedures.

A number of special customs procedures grant either full or partial relief from customs duties. For example, full relief may be granted for goods that are imported into the Customs Territory for processing and subsequent re-export ("Processing in the Customs Territory") unless the conditions of this procedure are violated.

Adding value through partnership



A similar procedure may also be applied to goods that are exported from the Customs Territory for processing and subsequently re-imported. Under this procedure ("Processing outside of the Customs Territory"), relief is granted for goods placed under the procedure of issue for domestic consumption. Import duties are, therefore, calculated based only on the value which has been added to the goods outside the Customs Territory.

Goods may also be registered under the temporary import/allowance procedure, which allows for either full or partial relief from import duties and taxes for goods that are temporarily imported into the territory of the Customs Union. Henceforth, non-tariff regulation measures do not apply to these goods.

Certain goods may not, however, be eligible to be listed under the temporary import procedure. Once the specified time limit (typically two years) has expired, the goods must be either exported from the customs territory or placed under a different customs procedure.



Currency control issues

Currency control

Both residents and non-residents of Belarus are permitted to have accounts with authorized banks and non-bank credit and finance organizations of the Republic of Belarus in Belarusian ruble or foreign currency whose exchange rate is established by the National Bank of the Republic of Belarus.

The Currency Control Law separates transactions involving foreign currency in foreign currency into two groups:

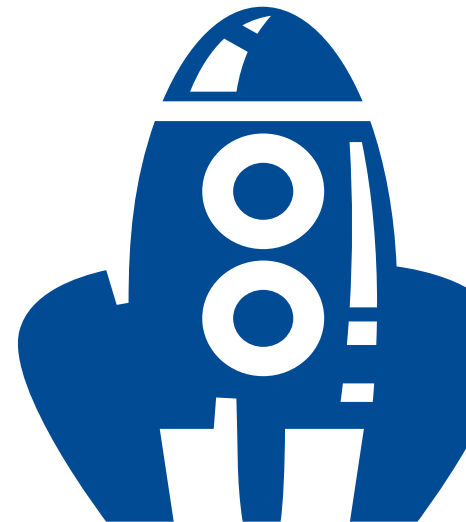
- Current currency transactions that do not require special permissions
- Currency transactions associated with the movement of capital, which may require permission from the National Bank of the Republic of Belarus (the NBRB)

The effective legislation provides an exhaustive list of current currency transactions:

- Settlements related to exported and/or imported goods (except for monetary funds, securities and real estate), proprietary information, exclusive rights to the results of intellectual activity, work or services
- Settlements related to leasing out property and/or acquiring property under lease
- Transfer and receipt of dividends and other investment income

• Non-trading operations:

- Transfer and receipt of funds for the payment of wages and salaries, scholarships, pensions, alimony, state benefits, allowances and compensation, as well as disbursements for damages
- Transfers of funds for the purpose of reimbursing expenses in connection with employee business trips abroad
- Transfers and receipt of inherited funds and funds received from selling inherited property
- Transfers and receipt of funds related to the death of citizens, including transportation and other burial expenses
- Receipt of monetary compensation for the victims of repression, as well as members of their families and their heirs
- Payment of funds in order to maintain Belarusian diplomatic missions and consular institutions abroad
- Receipt of funds by judicial and arbitration authorities, including notaries, investigation and other law enforcement agencies in connection with their activities
- Receipt of funds in connection with court rulings and other procedural documents
- Transfer of membership fees to public, religious or international organizations as well as other obligatory payments for membership of international organizations
- Transfer and receipt of Belarusian rubles, foreign currency, transfer and receipt of other foreign currency valuables under gift contracts, including donations/sponsor aid, in compliance with Belarusian legislation
- Residents taking currency valuables received from non-residents into custody
- Payment of taxes and other compulsory payments envisaged by the legislation of Belarus or other countries
- Transfers of funds for duties and other payments to patent authorities
- Transfers and receipt of funds in connection with participating in conferences, seminars, sporting events, exhibitions and fairs
- Repayment of funds transferred due to an error
- Other transactions listed by the President of the Republic of Belarus or, upon the President's initiative, by the Belarusian Council of Ministers, including those envisaged by international treaties ratified by the Republic of Belarus



Currency transactions associated with the movement of capital

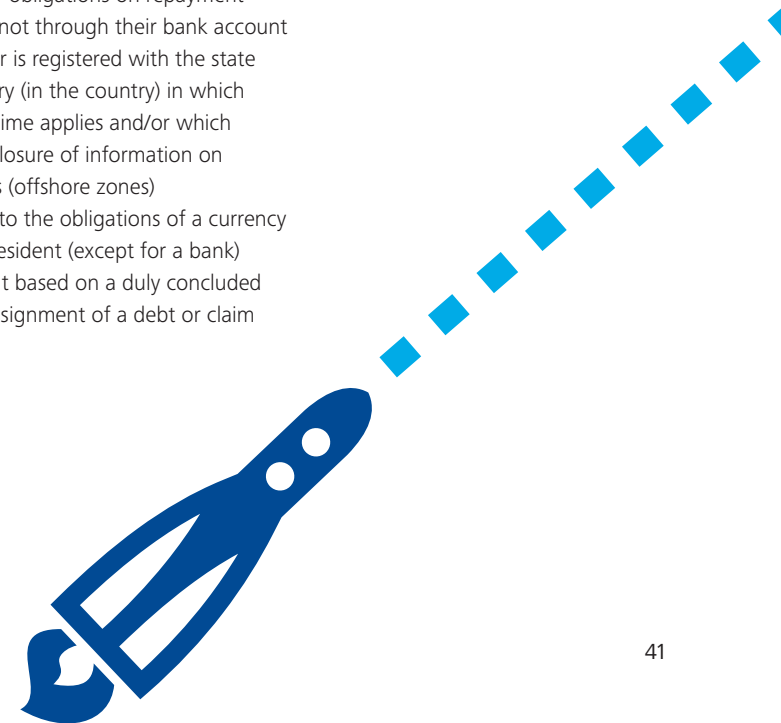
Currency transactions associated with the movement of capital include currency transactions between residents and non-residents, other than those classified as current currency transactions.

Residents may perform currency transactions associated with the movement of capital on the basis of the National Bank's permits, except as otherwise expressly stipulated by legislation.

The transactions below require permits:

- Acquisition of shares to be distributed among the founders and acquisition of a share in the statutory fund or in a non-resident's property
- Acquisition of securities from non-residents, as issued by non-residents, except for the acquisition of shares to be distributed among the founders
- Acquisition of property outside of Belarus and treated as real estate under Belarusian legislation
- Placing money in a non-residential bank account or transferring money to non-residents (other than to non-resident banks)
- Provision of loans for the period exceeding 180 days
- Transfer of funds on transactions providing for trust management of currency valuables
- Settlements relating to the liabilities of subjects/residents of currency transactions (other than banks) to non-residents under suretyship or guarantee agreements concluded between them

- Receipt of credit and/or loans, providing that at least one of the conditions below is met:
 - The interest rate for a credit and/or a loan exceeds the limit set by the Board of Directors of the NBKB (14% per annum for currency transactions in USD and EUR and the refinancing rate of the relevant central or national bank, effective as of the date of receiving a credit and/or a loan by the currency transaction subject/resident, increased by 5% for transactions in Belarusian rubles)
 - The interest rate for a credit and/or a loan in case of a delay in the repayment of a credit and/or a loan (in the amount of the increase in the interest for the delay in repayment of the credit and/or loan) and the penalty amount in total exceed 0.01% for each day of delay (3.65% per annum). To work out this rate, the penalty amount should be expressed as a percentage if it is expressed as a fixed amount in the contract.
- Apart from the interest rate for a credit and/or a loan, the agreement between a currency transaction subject/ resident (except for a bank) and a non-resident (except for a non-resident bank) provides for additional payments, except for the interest rate on delays in repaying a credit and/or a loan (in the amount of the increase in the interest for the delay in repayment of a credit and/or loan as well as payments related to paying the penalty)
- Obligations related to the repayment of a credit and/or a loan are not fulfilled through the borrower's account
- A credit and/or a loan is used to fulfill a resident/ borrower's monetary obligations on repayment of a credit or a loan not through their bank account
- A creditor or a lender is registered with the state register of the country (in the country) in which a preferential tax regime applies and/or which permits the non-disclosure of information on financial transactions (offshore zones)
- Settlements relating to the obligations of a currency transaction subject/resident (except for a bank) and to a non-resident based on a duly concluded agreement on the assignment of a debt or claim



The Currency Control Law contains a list of currency transactions related to the movement of capital that do not require permission from the NBRB.

Banks, customs and other state authorities are responsible for controlling the correct and timely payment of costs and the receipt of goods or services under export and import contracts, regardless of the currency used in the settlement.

Obligatory conversion of export revenue

Belarusian legal entities are currently required to convert 40% of their foreign currency export revenue into Belarusian rubles by selling it in the internal market of the Republic of Belarus within seven working days of receipt.

Purchase of foreign currency

Until 1 January 2017:

1. In the exchange market purchase and sale of foreign currency are carried out without limitations on the amount of transaction. Foreign currency purchase bids in the exchange market shall mandatorily specify the maximum foreign currency purchase rate at which these bids can be performed.

2. No purchase and sale transactions are carried out outside the exchange market, excluding transactions with the NBRB.

Payments for imports

Please note that the NBRB currently prohibits advance payments from a Belarusian bank account under foreign economic contracts involving import transactions. This prohibition applies to settlements both in Belarusian rubles and foreign currency.

Advance payments made to a non-resident from a Belarusian bank account may only be performed if the importer has a permission from the NBRB.

The NBRB currently permits advance payments from the importer's foreign currency revenue, loans/credits from non-residents, foreign currency received within contributions to the share capital, loans, etc.

Enforcement of currency regulations

Belarusian legislation provides for penalties for any breach of currency regulations, both for the individual carrying out the transaction and the Belarusian bank that, as a currency control agent, is obliged to ensure compliance with legislation. The range of penalties includes the following:

- Penalties up to a maximum of 100% of the value of the transaction in question
- Invalidity of any licenses or permits previously issued by the currency control authorities to both the participant and the bank involved

Currency control measures include the following:

- Settlements relating to transactions between Belarusian residents (including companies with foreign investments) may only be conducted in Belarusian rubles, with a few exceptions.
- Settlements between residents and non-residents of the Republic of Belarus may be performed in a freely convertible foreign currency or in Belarusian rubles.

There are also strict rules relating to foreign currency held in cash when the use of cash is possible.

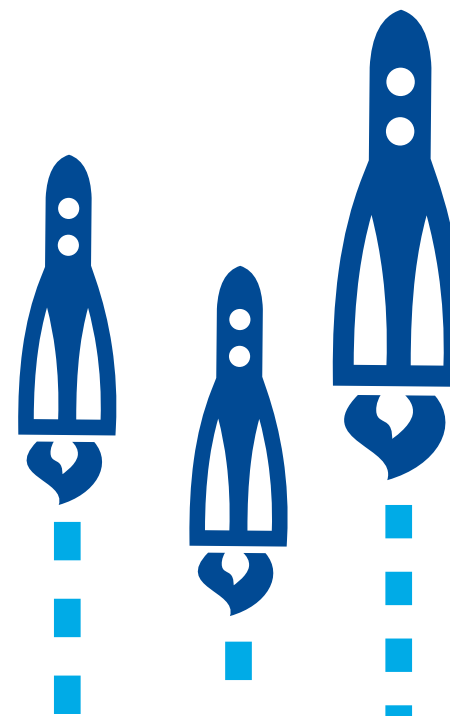
Anti-money laundering legislation provides for additional measures to be taken by the authorities in order to prevent illegal operations. These measures include the registration of suspicious transactions, communication of information to the tax authorities and other special bodies, inspections and audits of suspicious transactions by state authorities, and the interruption of illegal transactions.

The opening of accounts outside Belarus by Belarusian residents requires permission from the NBRB, except in certain cases.

In November 2012 the NBRB of Belarus has imposed restrictions on granting of foreign currency credits. Starting from 18 November 2012, credits in foreign currency may be received by companies only for foreign economic activities.

However the restrictions do not refer to obtaining credits from non-resident banks, as well as credits received from the banks of the Republic of Belarus at the cost of recourses of non-residents of the Republic of Belarus associated with those credits by maturities, amounts, and currencies.

Since 2014 all foreign currency credits are provided in non-cash form, i.e. the bank transfers foreign currency for payment on settlement documents provided by the borrower to non-residents' accounts.



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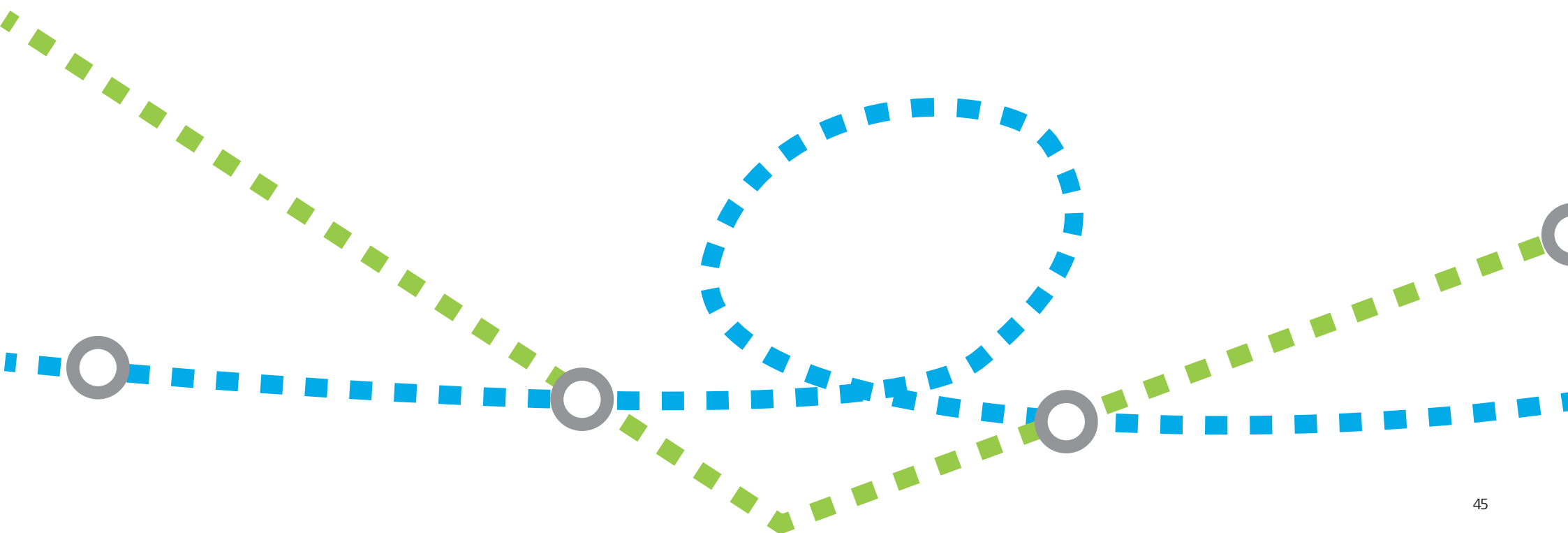
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