



Implementing international employee share plans in Russia

Foreign incentive programs

Options

Restricted stock
units

ESPP

Phantom shares

SAR

ESOP

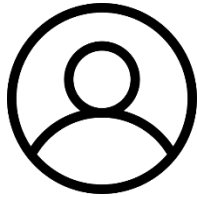
Free shares

SIP

Matching shares

Discount shares

Foreign securities



Private Circulation (transactions with outstanding securities)

Foreign financial instruments must have ISIN and CFI codes and qualify as securities.



Private Placement (new securities)

- Same requirements as for private circulation
- Registration of the prospectus with the Central Bank of Russia
- Requirements to the issuer

Foreign securities

Foreign securities not admitted to **public** placement or **public** circulation and FFIIs not qualifying as securities - may be offered only to qualified investors and to pre-defined group.



Exemption

The acquisition is carried out based on the **terms of an employment contract** / due to individual's performance of the **duties established by it**, or his/her **membership in the board of directors** (supervisory board)

Implementing foreign share plans in Russia

Payments
through RusCo

to adapt local
policies and
employment
contracts

Co-financing
by RusCo

attention to
tax issues
and legal
grounds for
payments

Accumulating
employees'
funds

agreement
with the
employee and
his/her
consent



Personal Data issues



Recipients of PD located outside Russia



Collecting and processing by the 3-rd party abroad



PD localizing – obligatory?



Legal ground for PD processing



Agreement on PD processing required?

Practical solutions



Tax and social security issues

For foreign
company

No implications

For participating
local employer

Corporate tax issues
Tax withholding and social security contributions

For employee

Tax reporting
Tax payment

Local employer. When obligations may arise



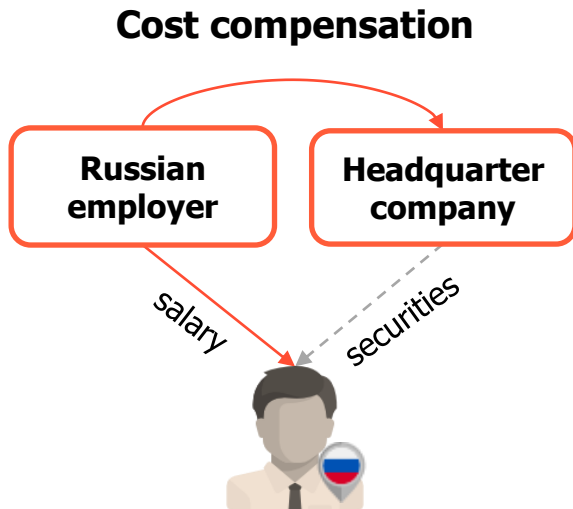
Participation for local employer may occur in case of:

- Actual delivery of the award or payment of cash to employees,
- Inclusion of the plan program into the local documents (labour contracts, local remuneration policy, etc.)
- Deduction of costs



** Social security contributions are paid solely by employers: pension fund: 22% on salaries up to RUB 1 565 000 per year and 10% above the cap; social insurance fund: 2.9% capped at salaries up to RUB 1 032 000 per year; and medical insurance fund: 5.1% on salaries without any caps.*

Local employer. Cost deduction and recharge



Expenses decrease corporate tax base if they are:

- Economically justified
- Aimed at gaining profit
- Correctly documented

Tips to remember:

- For simple cases (cash awards) – easy to confirm expenses
- For more complicated cases (share awards) – expenses harder to justify:
 - ✓ proper recharge agreement,
 - ✓ inclusion of the Plan into local documents (?) -> may trigger risks of social security obligations
- Currency control issues for transfers of funds abroad

Employee. Tax rate and taxable moment

✓ Annual income does not exceed RUB 5 000 000

13% tax rate

✓ For income exceeding RUB 5 000 000*

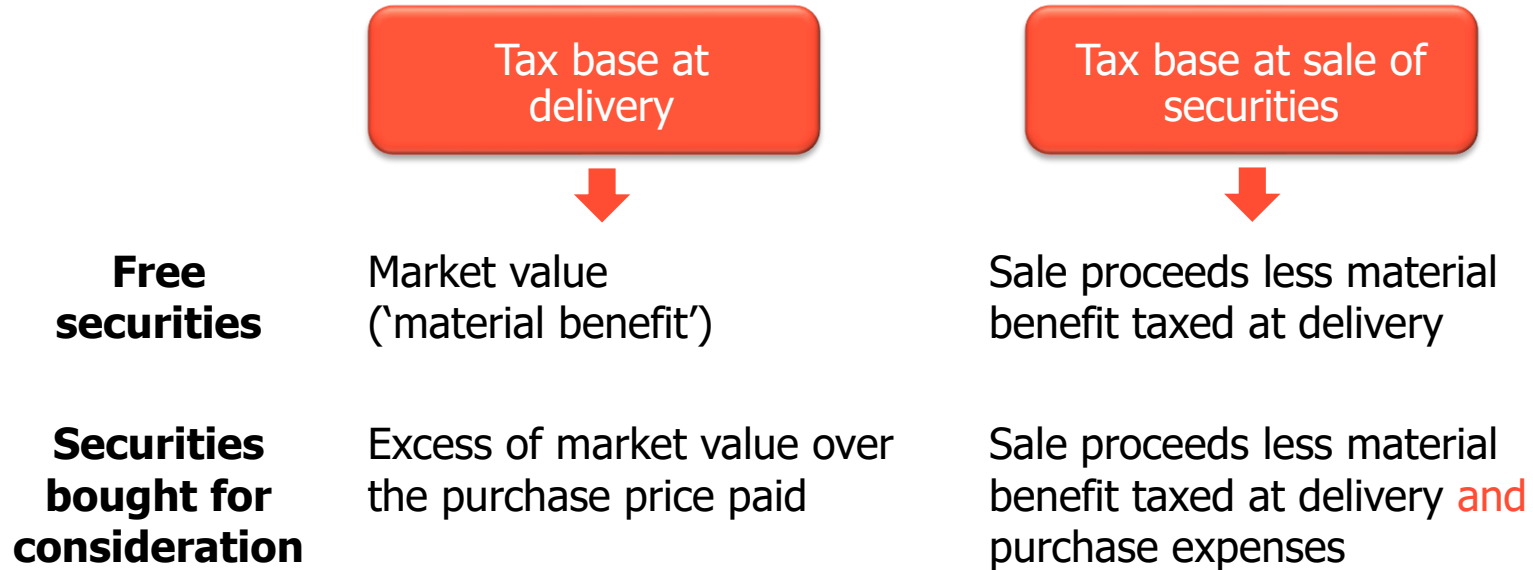
15% tax rate

	Non-monetary settlement	Cash payment (phantom plans)
Grant**	No taxation	No taxation
Vest	No taxation	No taxation
Delivery	Taxable moment	Taxable moment
Other income (sale proceeds, dividends)	Taxable moment	N/A

** Some types of income may be taxed at 13% flat rate regardless of annual income*

***Risk on taxation at a grant*

Employee. Tax base calculation



Note! All transactions performed in foreign currency are to be recalculated into RUB based on exchange rate established by the Central Bank of Russia at the date of each transaction

Employee. Tax exemption at sale of shares

Income from the sale of shares may be exempt from the personal income tax if:



Ownership lasts for more than 5 years



The share of the Russian real estate in the assets of the company issuing shares does not exceed 50% (directly or indirectly)



The shares are not issued by a company located in a country that provides preferential tax treatment and/or considered as offshore*

*<http://publication.pravo.gov.ru/Document/View/0001201711210026>, Minfin

Employee obligations. Personal income tax

Employees are required to fulfill their tax obligations themselves:

- if award is transferred directly from the parent foreign company and **local employer does not participate** in the program
- in case of receipt of dividends or sale proceeds.

Obligations include:

- Preparation and filing of the personal income **tax return – not later April 30** following the year in which the income was received
- **Payment** of personal income tax at 13%/15% rate – **not later July 15** of the year following the year in which the income was received

Employee. Currency control

After **opening of a foreign account** employee will be required:

- To comply with rules on transactions:
 - ✓ Bank accounts – certain limitations may apply;
 - ✓ Other financial market organizations – no limitations
- To provide special reporting

Bank account in the country that exchanges information under CRS

- Transfer of shares
- Dividends
- Sale proceeds

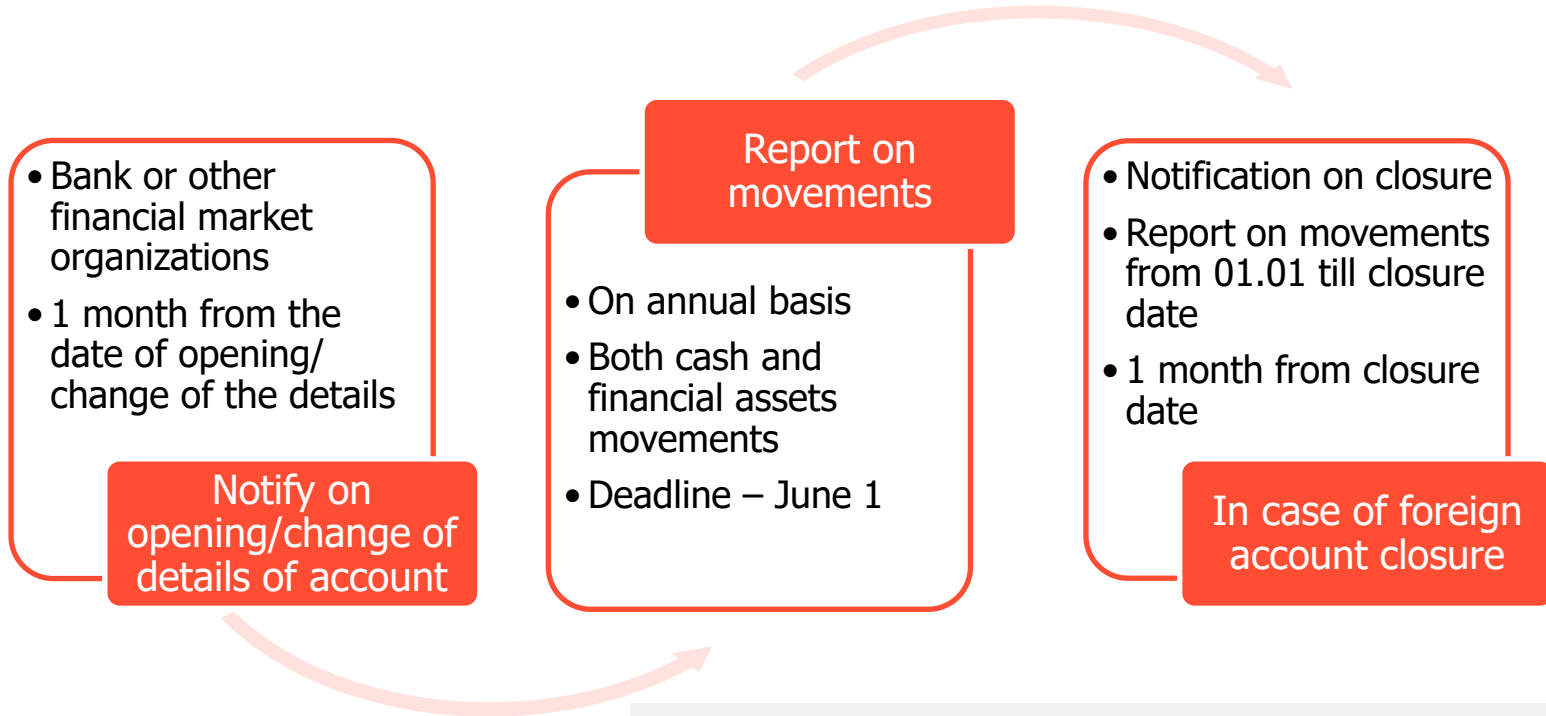
Bank account in non-exchanging country (e.g. UK, USA, Canada)

- Transfer of shares
- **NO** dividends
- **NO** sale proceeds

Account with other financial market organization (e.g. depository, broker, etc.)

- Transfer of shares
- Dividends
- Sale proceeds

Employee. Reporting obligations



Note! Russian tax authorities may request documents

Employee. Exemption from annual reporting

Russian employees may be exempted from annual reporting if:



Bank or other financial market organization is located on the territory of an **EEU member** state or on the territory of a foreign state that **automatically exchanges information** with Russia*

AND



Total amount of monetary funds:

- **credited** to the account (**debited** from the account) during the reporting period does not exceed RUB 600 000 or
- **closing balance** does not exceed RUB 600 000 (if there were **no credits** during the reporting year).

*UK/USA accounts should be annually reported without exemptions

International share plans: things to remember



When structuring implementation of the international plan in Russia consider that **Russian securities regulations may be applicable.**



Number and scope of PD documents will depend on the structure of implementation of the international plan.



Russian currency control has been significantly liberalized – employees have more opportunities for **holding assets outside Russia.**



Tax exemption may **motivate employees** to participate even more actively.

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