APPENDIX:
SELECTED RUSSIAN TAXATION LEGISLATION*

Letter Of the Russian Federation State Tax Service “On Several Issues Regarding the Taxation of Foreign Investment”
2 June 1994 No.BG-4-06/68N

Rossiiskie Vesti, 29 June 1994

In response to a number of inquiries received from enterprises, foreign investors, and tax agencies on the application of Russian Federation tax legislation concerning foreign investment, the State Tax Service of the Russian Federation and the Russian Federation Ministry of Finance offers the following explanations:

1. In accordance with section 5 of the Russian Federation Presidential Edict No. 2270 of 22 December 1993 “On Several Changes in Taxation and in Inter-relations between Budgets of Different Levels”, profit spent on financing in the form of share participation in capital investment for manufacturing and non-manufacturing purposes, as well as the repayment of bank credits, received and used for these purposes is exempt from taxation.

2. In accordance with sub-section “e” of section 1, article 5 of the Russian Federation Law No. 1992-1 of 6 December 1991 “On the Value Added Tax”, operations involving the payment and transfer of loans are exempt from VAT. Thus, credit in foreign currency received by taxpayers from foreign banks or credit institutions is not subject to VAT or the special tax.

3. In accordance with section 14 of the Russian Federation Presidential Edict No. 2270 of 22 December 1993 “On Several Changes in Taxation and in Inter-relations between Budgets of Different levels”, income received through the transfer of temporary financial resources without a license to conduct banking operations is included in [the category of] amounts that are subject to value added tax. Income (interest) received by foreign banks or credit institutions by credit agreements are not subject to VAT or the special tax, but are subject to tax in accordance with article 11 of the Russian Federation Law “On the Profit Tax of Enterprises and Organizations”.

Income (interest) received on the territory of the Russian Federation by foreign banks and credit institutions, operating on the territory of the Russian Federation through separate subdivisions by credit agreements, is not subject

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Letter From the State Tax Service of the Russian Federation
"On Several Forms of Income Received by Foreign Legal Entities from Sources in Russia which Are Subject to Taxation"

Ekonomika i Zhizn', June 1994 No.23

In connection with the large number of inquiries received from the State Tax Inspection, the State Tax Service of the Russian Federation reports the following:

1. In accordance with Article 11 of the Law of the Russian Federation No.2116-1 of 27 December 1991 "On the Profit Tax of Enterprises and Organizations", foreign legal entities which receive income from sources located in the territory of the Russian Federation are subject to taxation on this income at the source of payment. The particular income received from sources in the Russian Federation subject to taxation includes:

1.1. Dividends paid by Russian residents as well as income, distributed to the foreign participant, from profits of an enterprise established in Russia with foreign investment.

1.2. Income received from individual shares of foreign partners in the activities of a partnership.

1.3. Additional compensation of shareholders in money or another form.

1.4. Profit, distributed among investment funds (specialized investment funds of privatization).

1.5. Interest-bearing income from:
- promissory notes of any kind, including obligations with the right to the profit of a company and convertible bonds;