

DIVISION VI. GENERAL PROVISIONS OF THE PROFITS TAX AND INCOME TAX

Chapter 17. General rules and definitions

Article 124. Scope of Application

This Division applies for the purposes of the income tax (Division IV) and the profits tax (Division V).

Chapter 18. Deductions from Gross Income

Article 125. Outlays connected with the receipt of income

From gross income shall be deducted all expenses connected with the receipt of such income, with the exception of outlays for the acquisition of fixed assets and their installation and other expenses of a capital nature in accordance with Article 161, and expenses that are nondeductible according to Article 126 and other provisions of this Chapter.

Article 126. Nondeductible expenses

1. Deductions are not allowed for expenses not connected with economic activity.
2. Deductions described in this Chapter are not allowed if they do not meet the requirements of Article 125.
3. No deductions are allowed with regard to meals, representation expenses that are in the nature of entertainment (the conducting of festivities, accommodations for guests, etc.), or for expenses of a social nature.
4. Entertainment expenses may be deducted by a taxpayer whose entrepreneurial activity is in the nature of entertainment, if the expenses are incurred within the bounds of such activity.
5. Deductions for contributions to reserve funds shall only be made in accordance with the provisions of Article 129 and Article 130.
6. A physical person may not deduct his expenses of personal consumption, or expenses connected with his employment.

Article 127. Limitation on Interest Deduction

1. Subject to point 2 of this Article, interest that is actually paid (or payable in the case of use of the accrual method) on each credit is deductible but not more than 125 percent of the interest rate in the interbank credit auction of the National Bank of the Republic of Taxastan at the time the credit is structured.
2. In the case of an enterprise more than 20 percent of the equity interests in which are owned, directly or indirectly, by nonresidents or by legal persons who are exempt from profits tax, interest paid on each credit used during a tax period shall be deducted according to point 1 of this Article, but the maximum amount that may be deducted according to point 1 of this Article is limited to:
 - a. any interest income of that enterprise, plus

- b. 50 percent of the enterprise's gross income (other than interest income) reduced by the allowed deductions permitted under this Chapter other than the deduction for interest.

Article 128. Doubtful and bad debt deduction

1. Taxpayers are entitled to a deduction for bad debts connected with goods, work, and services that have been supplied where income from them was previously included in gross income received from entrepreneurial activity.
2. The deduction of the bad debts is allowed at the time the debt is written off in the taxpayer's books as worthless.
3. Banks are entitled to deduct 80 percent of the allocation to a reserve fund to cover doubtful and bad debts under rules for formation of the reserve fund established by the National Bank of the Republic of Taxastan.

Article 129. Deduction for allocations to insurance reserve funds

A legal person engaged in insurance activity is entitled to deduct allocations to insurance reserve funds in accordance with norms established by Government of the Republic of Taxastan.

Article 130. Deductions for expenditures on scientific-research, project-design, and experimental-design work

Deductions are taken for expenditures on scientific-research, project-design, and experimental-design work connected with the receipt of gross income, with the exception of expenditures on the acquisition of fixed assets, their installation, and other outlays of a capital nature.

Article 131. Amortization charges and deductions for fixed assets

1. Amortization charges for fixed assets used in economic activity are deductible in accordance with the provisions of this Article.
2. Assets subject to amortization do not include land, works of art, inventories, property whose value is fully deducted in the current year when determining taxable profit, and other assets which are not subject to wear.
3. Fixed assets subject to amortization are divided into groups with the following amortization rates:

Group number	Type of property	Amortization rate as a percentage
1.	Passenger automobiles; automobile and tractor equipment for use on roads; special instruments, sundries and accessories; computers, peripherals, and equipment for data processing	20
2.	Automotive transport rolling stock; trucks, buses, special automobiles, and trailers. Machines and equipment for all sectors of industry and the foundry industry; forging and pressing equipment; electronic equipment; construction equipment; agricultural machines and equipment. Office furniture.	15
3.	Railway, sea, and river transport vehicles; power machines and equipment; thermal-engineering equipment, turbine equipment, electric motors, and diesel generators. Electricity transmission and communication facilities; pipelines.	8
4.	Buildings, structures, and installations.	7
5.	Amortizable assets not included in other groups	10

4. Amortization charges under each group of fixed assets (hereinafter “group”) are calculated by applying the amortization levels indicated in point 3 of this Article to the balance of the group at the end of the tax year.

5. Amortization for buildings, structures, and installations (hereinafter—buildings) is charged for each building separately rather than by group.

6. The balance value of a group at the end of the year is the amount determined as follows (but no less than zero):

- a. the balance of the group at the end of the preceding year, reduced by the amount of depreciation accrued for the preceding year, and also amounts indicated in points 8 and 9 that were deducted in the previous year;

plus

b. the cost of fixed assets according to Article 161 added to the group in the course of the year;

minus

c. the amount received from the sale of fixed assets of the group at their sales prices during the course of the tax year.

7. If the amount received upon the sale of fixed assets from a group in the course of a tax year exceeds the balance of the group at the end of the year, the excess is included in income and the balance of the group becomes equal to zero.

8. If the balance of the group at the end of the year is less than 50 times the minimum monthly wage, the amount of the balance is deductible.

9. If all fixed assets of a group have been sold, transferred or liquidated, the balance of the group at the end of the tax year is deductible.

Article 132. Repair expenses deduction

1. Deductions are permitted in respect of each group for expenses on the repair of fixed assets belonging to that group.

2. The actual amount of repair expenses incurred during the tax year is deductible in accordance with point 1 but not in excess of 5 percent of the balance of the group at the end of the year.

3. The amount of actual repair expenses exceeding 5 percent of the balance of the group shall go to increase the balance of the group.

Article 133. Deduction of insurance premium payments

Insurance payments that are paid by insured parties under agreements to insure risks relating to economic activity shall be deducted, with the exception of insurance payments under agreements of a cumulative and repayable nature.

Article 134. Expenditures on geological surveying and work to prepare for the extraction of natural resources

1. Expenditures on geological surveying and work to prepare for the extraction of natural resources are deductible from gross income in the form of amortization charges at the amortization rate for group 2 fixed assets and shall form a separate group.

2. This Article also applies to expenditures on intangible assets borne by the taxpayer in connection with the acquisition of rights to geological surveying and the processing or exploitation of natural resources.

Article 135. Expenditures on intangible assets

1. Intangible assets include outlays on intangible objects used over long periods of time in economic activity, if these have a limited useful life.
2. Expenditures on intangible assets are deductible in the form of amortization charges at the rate of amortization of group 5 fixed assets and shall form a separate group.
3. The value of intangible assets subject to amortization does not include expenditures on their acquisition or production if they were already deducted when calculating taxable profit of the taxpayer.

Article 136. Limitation on deduction of taxes and fines

No deduction is allowed for:

- a. income tax or profits tax paid on the territory of the Republic of Taxastan and in other states;
- b. fines and penalties paid (payable) to the budget or the budget of another state or local government;
- c. bribes and other payments that are illegal under the criminal law of Taxastan (including those made in another country that would be illegal if made in Taxastan).

Article 137. Losses upon the supply of property

Losses arising upon the supply of property (other than property used in a business or property the gains on the supply of which are exempt from tax) are compensated from gains received from the sale or transfer of such property. If the losses cannot be compensated in the same year, they are carried forward for a period of up to five years and compensated from income from gains from the supply of similar property.

Article 138. Carrying losses forward

1. In the case of an enterprise, the excess of allowed deductions over gross income (loss from entrepreneurial activity) is carried forward for a period of up to five years to be covered from the profit of future periods.

2. In the case of a physical person, the excess of allowed deductions attributable to gross income from nonemployment economic activity over such gross income may not be deducted against wages but may be carried forward for a period of up to five years to be covered from gross income from nonemployment economic activity of future periods.

Chapter 19. Withholding of Tax at the Source of Payment

Article 139. Procedures for Withholding Tax at the Source of Payment

1. The following persons (tax agents) are obliged to withhold income tax (profit tax) at the source of payment:

- a. legal persons who make payments to physical persons working as employees;
- b. physical persons-individual entrepreneurs who make payments to physical persons working as their employees;
- c. legal or physical persons paying out pensions to other persons, with the exception of state pensions;
- d. resident legal persons that pay dividends to legal and physical persons;
- e. legal or physical persons that pay interest to legal and physical persons;
- f. legal or physical persons that make payments described in Article 143.

2. The legal or physical person paying income bears responsibility for withholding and transferring taxes to the budget. If amounts of tax are not withheld, a legal or physical person paying income is obliged to pay to the budget the tax not withheld and the associated fines and penalties.

3. Legal and physical persons withholding tax at the source in accordance with point 1 of this Article are obliged:

- a. to transfer the tax to the budget within five business days after the end of the month in which the payment was made;
- b. upon payment of wages, to issue to the physical persons receiving the income, upon their request, a statement indicating their last name and initials, the amount and type of income, and the amount of tax withheld (if tax was withheld);
- c. within 30 days of the end of the tax year, to file with the tax authorities, and also to send to legal and physical persons receiving income in accordance with

point 1 of this Article, statements reflecting the registration number of those persons, their names or last names and initials, the total amount of income, address, and the total amount of tax withheld during the accounting year.

4. A tax agent who is the principal employer of an employee withholds tax on wages according to a monthly table. Such tax is considered a final tax, if the taxpayer does not have to file a tax return.

5. A tax agent who is not the principal employer of a taxpayer is required to withhold tax from wages at the rate of 15 percent without application of the minimum monthly wage.

Article 140. Withholding of tax on dividends at the source of payment

1. Dividends paid by resident enterprises are subject to taxation at the source of payment at the rate of 12 percent, with the exception of dividends paid to resident enterprises.

2. Dividends taxed under point 1 of this Article are not included in the gross income of the person who receives the dividends.

Article 141. Withholding of tax on interest at the source of payment

1. Interest paid by a resident or by or on behalf of a permanent establishment of a nonresident is taxed at the source of payment at the rate of 12 percent of the amount due, if the income is from a source in the Republic of Taxastan according to Article 27.

2. Interest paid to resident banks (or to a permanent establishment of a nonresident bank in the Republic of Taxastan) for credits (loans) is not subject to taxation at the source of payment.

3. Interest taxed under point 1 of this Article is not subject to further taxation after its payment to a physical person.

4. A resident legal person whose profit is subject to taxation and who has received interest taxed under point 1 of this Article shall include in his gross income the full amount of interest income without deduction of the tax withheld and is entitled to a credit for the tax withheld, in the case of the existence of documents certifying the withholding.

Article 142. Withholding of tax on income of nonresidents at the source of payment

1. A nonresident's income from a source in the Republic of Taxastan according to Article 27 that is not attributable to a permanent establishment of the nonresident located on the territory of the Republic of Taxastan is subject to taxation at the source of payment according to the amount of the gross income without deductions at the following rates:

- a. dividends — according to Article 141;
- b. interest — according to Article 142;
- c. insurance payments by a resident enterprise or individual enterprise under agreements for the insurance or reinsurance of risks—4 percent;
- d. payments by a resident enterprise or individual enterprise for telecommunication or transport services in international communications or shipments between the Republic of Taxastan and other states, excepting freight payments —4 percent, and freight payments —6 percent;
- e. the following payments by a resident enterprise or individual enterprise: royalties, management fees, income from the rendering of works or services (with the exception of income received in the form of wages and insurance), including payments for services described in points b, i, j, k, and o of Article 27(21), except insurance payments—20 percent.
- f. income in the form of wages paid by a resident enterprise or individual enterprise —at the rates specified in Article 118.

2. For purposes of this Article, payments made by or on behalf of a permanent establishment of a nonresident in the Republic of Taxastan are considered to be made by a resident enterprise.

Chapter 20. International Taxation

Article 143. Taxation of net profit of the permanent establishment of a foreign legal person

In addition to the tax on profits, a permanent establishment of a nonresident legal person is taxed on the net profit of that permanent establishment at the rate of 8 percent.

Article 144. Foreign tax credit

1. Amounts of income tax or profit tax paid outside the Republic of Taxastan are credited upon payment of tax in the Republic of Taxastan.
2. The amount of the credit stipulated by point 1 of this Article must not exceed the amount of tax assessed in the Republic of Taxastan on that income or profit at the rates in effect in the Republic of Taxastan.

Article 145. Income received in countries with concessional taxation

1. If a resident directly or indirectly holds more than 20 percent of the authorized capital of a foreign enterprise or has more than 20 percent of the voting shares of this enterprise, which in its turn receives income in a state with concessional taxation, then the portion of such income pertaining to the resident is included in his taxable income (profit).
2. A foreign state is considered to be a state with concessional taxation if its tax rate is 1/3 lower than that determined in accordance with this Code, or if laws on the confidentiality of financial information or company information exist which allow secrecy to be maintained concerning the actual owner of property or recipient of income (profit).

Chapter 21. Rules for Tax Accounting

Article 146. The tax year

1. The tax year is the calendar year.
2. In the case of a legal person which comes into existence or goes out of existence during the course of a calendar year, the tax year is the period of time during the year in which the taxpayer was in existence.
3. The first taxable year of a physical person begins at birth, and the final taxable year of a physical person ends at the end of the year during which the person dies.

Article 147. Principles for recording income and expenditures

1. The taxpayer is obliged to maintain accurate and timely records of income and expenditures on the basis of documented data, assigning them to the relevant reporting period in which they have been received or made, depending on the accounting method used in accordance with this Chapter, in a manner that clearly reflects taxable income (profit). The method of accounting used by a taxpayer includes all aspects of the time and manner in which receipts and costs are taken into account, such as the use of the cash or the accrual method, the method of inventory accounting, and the method of accounting for costs of production and other capital costs.
2. The taxpayer is obliged to ensure that all operations connected with its activities are recorded, and in such a manner that their beginning, course, and end can be identified.
3. Except as otherwise provided in this Article, taxable income (profit) must be calculated under the same method that the taxpayer uses in keeping his books, making such adjustments as are required to conform to the rules of this Code.
4. Except as otherwise provided in this Article, the taxpayer may maintain records for tax purposes using the cash method or the accrual method, on condition that the taxpayer uses one and the same method during the tax year.

5. The taxpayer must use the accrual method of accounting during the first tax year in which it is registered as a VAT taxpayer or is obliged to maintain accounting records using double entry bookkeeping, and in the course of all succeeding tax years.

6. In the case of a physical person, the requirement to keep records using the accrual method applies only to income from entrepreneurial activity.

7. If the accounting method of the taxpayer has changed, adjustments to elements affecting the tax must be made in the year the accounting method is changed, so that none of the above elements is left out or included twice.

Article 148. Principles for recording income and expenditures using the cash basis method

A taxpayer maintaining records using the cash method should record income upon receipt, and the taxpayer should record deductions when they are carried out.

Article 149. Moment of receipt of income in certain cases under the cash basis method

1. If a taxpayer receives monetary resources, the moment of receipt of the income is considered to be the moment of receipt of cash; if non-cash payment is made, it is the moment of transfer of funds to its account at a bank or to another account which it may manage or from which it is entitled to receive said resources.

2. In the case of the annulment or repayment of a financial obligation of a taxpayer, in particular, in the case of mutual offsetting, the moment of receipt of the income is deemed to be the moment when the obligation is annulled or repaid.

Article 150. Moment of carrying out of expenditures in certain cases under the cash basis method

1. The moment of carrying out of expenditures when a taxpayer uses the cash method in tax accounting is considered to be the moment, unless otherwise stipulated in this Article, when the taxpayer actually makes the expenditures.

2. If a taxpayer pays out monetary resources, the moment of carrying out of expenditures is considered to be the moment of payment of cash monetary resources; if non-cash payment is made, it is the moment the bank receives the order of the taxpayer to transfer the monetary resources.

3. In the case of the annulment or repayment of a financial obligation to a taxpayer, in particular, in the case of mutual offsetting, the moment of performance of expenditures is considered to be the moment when the financial obligation is annulled or repaid.

4. When paying interest on a debt obligation or when making payments for rental property, if the term of the debt obligation or rental agreement extends over several reporting periods, the amount of actually paid interest (rent) that is deducted for the tax year is limited to the amount of interest (rent) that has accrued during that year.

Article 151. Principles for recording income and expenditures under the accrual basis method

A taxpayer maintaining records using the accrual method should record income and expenditures based on the time when the taxpayer acquires the right to that income or assumes the payment commitment respectively, regardless of the time of actual receipt of income or performance of payments.

Article 152. Moment of receipt of income under the accrual basis method

1. The right to receive income is considered to have been acquired if the relevant amount is subject to unconditional payment to the taxpayer or the taxpayer has fulfilled all its obligations under the transaction or agreement in question.

2. If the taxpayer fulfills work or provides services, said right is considered to be acquired at the time of completion of the work or the provision of the services.

3. If a taxpayer receives or has the right to receive income in the form of interest or income from the rental of property, the term of the debt obligation or rental agreement extends over several reporting periods, the income is distributed among these reporting periods according to its accrual.

Article 153. Moment of carrying out of expenditures under the accrual basis method

1. The moment of carrying out of expenditures connected with a transaction (agreement) when a taxpayer uses the accrual basis method in tax accounting is considered to be the moment, unless otherwise stipulated in this Article, when all the following conditions are fulfilled:

- a. The existence of the taxpayer's financial obligation can be ascertained;
- b. the amount of the financial obligation can be valued with sufficient accuracy; and
- c. all of the parties to the transaction or agreement have actually fulfilled all their obligations under the transaction or agreement and the relevant amount is subject to unconditional payment.

2. In relation to this, a financial obligation means an obligation assumed according to a contract (agreement) for the purpose of fulfilling which the other party to the contract (agreement) will be required to supply the corresponding income in monetary or other form.

3. When paying interest on a debt obligation or when making payments for rented property, [the moment of carrying out of expenditures is considered to be the moment of expiration of the term of the debt obligation or rental agreement] the term of a debt obligation or rental agreement extends over several reporting periods, the expenditure is distributed among these reporting periods in accordance with its accrual.

Article 154. Joint ownership

In the case of a joint ownership or joint economic activity arrangement or another arrangement that involves ownership by more than one person but that does not involve the establishment of a legal person, the income and deductions of the arrangement are attributed to the owners and taxed according to their ownership interests.

Article 155. Income and deductions under long-term contracts

1. In the case of a taxpayer using the accrual method of accounting, income and deductions in connection with long-term contracts are recorded during a tax year based on the percentage of their actual completion.

2. The percentage of completion of a contract is determined by comparing the expenditures borne during the tax year against the total estimated expenditures under the contract.

3. A "long-term contract" means a contract for manufacture, installation, or construction, or the performance of related services, which is not completed within the tax year in which work under the contract commenced, other than contracts which are completed within 6 months of the date on which work under the contract commenced.

Article 156. Procedures for recording inventories

1. A taxpayer is obliged to include in inventories any goods in its ownership, and intended for subsequent sale or for production of goods, fulfillment of work, or provision of services.

2. When recording inventories, the taxpayer is obliged to reflect in the tax accounting the value of goods produced or acquired by it, to be determined based on outlays for production or the price of their acquisition, respectively. In particular, the taxpayer is obliged to include in the value of such goods the outlays on their storage and transportation.

3. When recording inventories, the taxpayer is entitled to assess the value of goods or products having defects, or that are obsolete, or out of fashion or products that for other reasons cannot be sold at a price in excess of its production cost (its acquisition price) on the basis of the price at which they can be sold.

4. If the case of goods for which the taxpayer does not keep individual records, the taxpayer has the right to use one of the three following methods for inventory accounting:

- a. the FIFO method – according to which goods that are allocated to inventory at the beginning of the accounting period are considered as sold (used) first during the accounting period, followed by goods produced (acquired) in the course of the accounting period in the process of their production (acquisition);
- b. the LIFO method – according to which goods that are produced (acquired) last are considered as sold (used) first during the accounting period;
- c. the method of valuing at average cost.

Article 157. Finance leases

1. If a lessor leases tangible property to a lessee under a finance lease, then for purposes of taxation, the lessee is treated as the owner of the property, and lease payments are treated as payments made on a loan to the lessee.

2. A lease of property is a finance lease if it satisfies one or more of the following requirements:

- a. the lease provides for transfer of ownership by the end of the lease term, or the lessee has an option to purchase the property by the end of the lease term for a fixed or determined price in accordance with the lease agreement; or
- b. the lease term exceeds 75% of the service life of the leased property; or
- c. the estimated residual value of the property at the expiration of the lease term is less than 20% of its fair market value at the commencement of the lease; or
- d. the present value of the minimum lease payments equals or exceeds 90% of the fair market value of the asset at the commencement of the lease term; or
- e. the leased property is custom-made for the lessee and at the end of the lease term it will not be usable by anyone other than the lessee.

3. Subpoint (d) of point 2 does not apply to leases that commence during the last 25% of the economic life of the asset.

4. For the purposes of this Article, the discount rate used to determine the present value of lease payments is equal to the rate of interest under Article 72(4).

5. For the purposes of this Article, the lease term includes an additional period for which the lessee has an option to renew the lease.

6. Where the lessor was the owner of the asset before commencement of the finance lease, the transaction is treated as a sale by the lessor and a purchase by the lessee.

Article 158. Recovered deductions and decrease in reserves

1. If previously deducted expenses, losses, or doubtful loans are reimbursed, then the amount received becomes income for the year in which it was reimbursed.

2. If reserves previously deducted in accordance with Article 129(3) and 130 are decreased, the decrease is included in income.

Article 159. Income and losses upon the sale or transfer of assets

1. Income from the sale or transfer of assets consists of the positive difference between proceeds from the sale or transfer and the cost of the assets as determined in accordance with Article 161.

2. Losses from the sale or transfer of assets consist of the negative difference between proceeds from the sale or transfer and the cost of the assets as determined in accordance with Article 161.

3. Points 1 and 2 of this Article do not apply to assets subject to amortization by groups as well as to inventories.

Article 160. Cost of assets

1. The cost of assets includes outlays for their acquisition, production, construction, assembly, and installation, as well as other outlays that increase their value, with the exception of outlays for which the taxpayer is entitled to a deduction.

2. If only part of an asset is sold or transferred, the cost of the asset at the time of sale or transfer is distributed between the remainder and the sold or transferred parts.

Article 161. Nonrecognition of gain or loss

1. No gain or loss is taken into account in determining taxable income (profit) on:
 - a. a transfer of assets between spouses;
 - b. a transfer of assets between former spouses as part of a divorce settlement; or
 - c. an involuntary destruction or disposition of an asset, where the proceeds are reinvested in an asset of the same character or nature before the end of the second year following the year in which the destruction or disposition takes place.
2. The cost of a replacement asset described in subpoint 1(c) of this Article is determined with reference to the cost of the replaced asset at the time of destruction or disposition.
3. The cost of an asset acquired in a transaction in which a gain is not taken into account for tax purposes under subpoints 1(a) or (b) of this Article is the cost to the transferor at the date of the transaction.
4. This Article does not apply to assets which are depreciated by group, except that subpoints (a) and (b) of point 1 of this Article apply where all assets in the group are transferred at the same time.

Article 162. Liquidations

1. The complete liquidation of a legal person is treated as a sale by the participants of their participations in such legal person.
2. If a legal person is liquidated, an asset of the legal person is transferred to a participant which is a legal person, the value of the asset is commensurate to the participant's interest in the legal person, and the participant held a 50 percent or more interest in the legal person immediately prior to the liquidation, then:
 - a. the transfer is not treated as a taxable disposal of the asset by the liquidated legal person;
 - b. the cost to the participant of the asset transferred is the same as the cost of such asset to the liquidated legal person prior to the transfer;
 - c. the transfer of the asset is not a dividend;
 - d. no gain or loss is taken into account on the cancellation of the participant's interest in the liquidated legal person;

- e. the balance value of any amortization groups shall be carried over to the transferee.

3. Point 2 of this Article does not apply to an asset which is depreciated using the pooling method, unless all assets in the pool are transferred at the same time.

4. Point 2 of this Article applies only if the complete liquidation is approved by the tax authorities as not having tax avoidance as a principal purpose.

Article 163. Formation of a legal person

- 1. A transfer is not treated as a taxable disposal of the assets transferred where:
 - a. a person or group of persons transfers assets (with or without any liability) to a legal person in exchange for a participation in the legal person; and
 - b. the person or group has a 50 percent or greater participation in the legal person immediately after the exchange.
- 2. The transferee's cost of an asset to which point 1 of this Article applies is the same as the transferor's cost at the time of transfer, and the balance value of any amortization groups transferred shall be carried over to the transferee.
- 3. The cost of a participation received in an exchange described in point 1 of this Article is equal to the cost of the assets transferred including the balance value of any amortizations groups transferred, less any liability transferred.
- 4. This Article does not apply to assets which are depreciated using the pooling method, unless all assets in the pool are transferred at the same time.
- 5. This Article does not apply to a transferor to the extent that the liabilities transferred by him exceed the cost of the assets transferred by him, including the balance value of any amortization groups transferred.

Article 164. Reorganization of legal persons

- 1. The value of property and participations held by a legal person or legal persons which are parties to a reorganization is the same as the value of such property and interests immediately before the reorganization. Similarly, the balance value of any amortization groups shall be carried over.
- 2. Transfers of property and participations among the legal persons which are parties to a reorganization are not treated as a taxable disposal of the property.

3. Any exchange of participations in a resident legal person which is a party to a reorganization for participations in another resident legal person which is also a party is not a taxable disposal of the participations.

4. The cost of the participations given in exchange under point 3 of this Article shall equal the cost of the original participations.

5. The distribution of participations in a legal person which is a party to a reorganization with respect to participations in another legal person which is also a party is not a dividend [for those parties to the reorganization].

6. The cost of the original participations referred to in point 5 of this Article shall be allocated among the distributed participations and the original participations in proportion to their market value immediately after the distribution.

7. Reorganization means:

- a. a merger of two or more resident legal persons;
- b. the acquisition or takeover of 50 percent or more of the voting participations and 50 percent or more of all other participations by value of a resident legal person solely in exchange for participations of a party to the reorganization;
- c. the acquisition of 50 percent or more of the assets of a resident legal person by another resident legal person solely in exchange for voting participations of a party to the reorganization with no preferential rights as to dividends;
- d. a division of a resident legal person into two or more resident legal persons; and
- e. a spin-off.

providing that the merger, acquisition, takeover, division, or spin-off is approved by the tax authorities as not having tax avoidance as a principal objective.

8. A party to a reorganization includes:

- a. any resident legal person which is directly involved in the reorganization;
- b. any resident legal person which owns a resident legal person which is directly involved in the reorganization;
- c. any resident legal person which is owned by a resident legal person which is directly involved in the reorganization.

9. For purposes of point 8 of this Article, ownership of a legal person means ownership of 50 percent or more of the voting participations and 50 percent or more of the value of all remaining participations in the legal person.

10. This Article does not apply to assets which are depreciated using the pooling method, unless all assets in the pool are transferred at the same time.

Article 165. Significant change in ownership of legal persons

Where there has been a change of 50 percent or more in the underlying ownership of a legal person, as compared with the ownership in the previous year, the carryforward of a loss, deduction, or credit from a previous taxable year ceases to be available, starting with the tax year in which the change occurred, unless:

- a. for a period of three years after the change, the legal person continues to conduct the same entrepreneurial activity; and
- b. for a period of one year after the change, the legal person does not engage in a new entrepreneurial activity.

Chapter 22. Administrative Provisions

Article 166. Filing of returns

1. A return for income tax and for profit tax is filed with the tax authorities prior to April 1 of the year following the accounting year by the following taxpayers:

- a. resident legal persons;
- b. resident physical persons having income not taxed at the source of payment in the Republic of Taxastan;
- c. resident physical persons having monetary resources in accounts with foreign banks located outside the Republic of Taxastan;
- d. nonresident legal or physical persons having income from a source in the Republic of Taxastan that is not taxed at the source of payment.

2. Upon a taxpayer's cessation of entrepreneurial activity in the Republic of Taxastan, he must file a tax return within 30 days with the tax authorities.

3. Upon liquidation of a legal person, the liquidation committee or the taxpayer shall immediately notify the tax authorities in writing. Within 15 days after the decision to liquidate

the legal person, the liquidation committee is obliged to file a return with the appropriate tax authority.

4. A physical person who is not required to file a return may file a return in order to claim a recalculation of tax and its refund.

5. A nonresident taxpayer without a permanent establishment in the Republic of Taxastan who receives income that is taxed at the source of payment under subpoints c, d, or e of Article 143(1) may file a return of such income for the purpose of claiming a refund of tax withheld. Such a return must be filed by the due date according to point 1 of this Article (taking into account any extension under Article 46). Such a taxpayer is taxed at the rate of 35% on the same basis as if the above-described income (profit) had been attributable to a permanent establishment of the taxpayer in the Republic of Taxastan, and expenses of the taxpayer that are attributable to such income (profit) shall be deductible as if they had been incurred by such a permanent establishment, except that the tax shall be no more than the amount required to be withheld at the source under Article 143.

Article 167. Current tax payments

1. Legal and physical persons engaged in entrepreneurial activity are obliged to make current payments to the budget no later than the 15th day following each quarter, in the amount of 1/4 of the tax for the preceding taxable year.

2. At the taxpayer's option the amount of current tax payments may be determined as the taxpayer's gross income (without deductions) for that month multiplied by the ratio of the annual amount of the tax to the taxpayer's gross income (without deductions) for the previous year. The taxpayer may use either of the two allowed methods for determining the amount of current tax payments throughout the year.

3. Current payments of tax are credited to tax charged against the taxpayer for the tax year.

Article 168. Payment of tax on results for the year

Taxpayers perform a final settlement and pay tax no later than April 10 of the year following the accounting year.