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# Accountor Guide:

## Travel & Business Expenses in Russian Accounting

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## Travel Expenses in Russia

Some employees may be required, as part of their work duties, to travel away from their regular workplace.

Such business trips are known as *komandirovka* or travel for business purposes.

Employers are required to reimburse to their employees all expenses related to business trips.

Business trip regulations provide the following steps:

1. Employers issue an order on **Form T-9a** (*prikaz o napravlenii v komandirovku* or business trip order). The business trip destination (name of city, town, or other designation), business trip purpose and expected duration must be specified in the form.

2. Employers issue an advance/expense report on **Form AO-1** (*avansoviy otchet* literally advance report).

3. The advance/expense report received by the employee is based on estimated expenses:

A. A per diem allowance for the expected days of business trip.

+ An allowance to buy tickets, if the employer has not provided the employee with the tickets.

+ An allowance for accommodation, if the employer has not paid for it.

4. The employee must record all expenses actually incurred in **Form AO-1** next to the estimated expenses and return any excess within a reasonable period of time. If actual expenses exceed estimated expenses, the employer must reimburse the difference to the employee.

5. Employees must attach supporting documents to the signed, original, completed **Form AO-1**.

The following documents are therefore required for deduction of travel expenses:

+ **Form T-9a**;

+ **Form AO-1**;

Documents supporting travel expenses attached to **Form AO-1** (discussed later).



## A Travel Advance

Employers must provide their employees with an expense allowance before their employees actually incur any expenses.

If employees travel outside Russia, employers may provide the travel advance in the currency of the country of destination.



### Example 1

Alexander has to travel to China for 5 days, travel expenses are expected to amount to CNY 4,500.

His employer may give CNY 4,500 to Alexander as travel advance.

Alexander spends CNY 4,300.

The reimbursement of CNY 4,300 is offset against the travel advance, and Alexander has to repay CNY 200 to his employer.

Sometimes employers pay travel advances in rubles on the employee's bank account so that employees have to convert rubles to a foreign currency to make payments abroad.

Employers must reimburse to employees any cash expenses incurred in a foreign currency. Otherwise employees will bear the cost of currency conversion.

### Example 2

Before travelling to the US, Alexander's employer gave him RUB 50,000.

Alexander stayed in the US from January 11 to January 13 and spent USD 400 and USD 200 respectively.

Upon arrival in Moscow on January 15, Alexander completed a Form AO-1 and attached supporting documents.

The Company's CEO signed the completed Form

AO-1 on January 16.

Exchange rates for USD/RUB

Date	Exchange rate USD/RUB
01/11	RUB 56
01/13	RUB 62
01/15	RUB 66
01/16	RUB 64

Reimbursement of the expenses incurred in USD:

$$\text{\$400} \times \text{RUB } 56 + \text{\$200} \times \text{RUB } 62 = \text{RUB } 34,800$$

Since the employee received a travel advance of RUB 50,000, he needs to return RUB 15,200 to his employer.

When accountants record travel expenses, they record them as of the date of Form AO-1:

$$(\text{\$400} + \text{\$200}) \times \text{RUB } 64 = \text{RUB } 38,400$$

The difference of RUB 3,600 between the reimbursement (cash basis) and expenses recognized (accrual basis) is recorded as deductible foreign exchange losses.

Generally, all travel expenses must be incurred under an accountable plan, i.e. employees must duly report expenses to their employer and any advances not used must be returned to the company.

Employee must also return within a reasonable period of time any undocumented amounts of travel advance. If this is not done, undocumented amounts will be considered paid under a non-accountable plan.

If employers allow non-accountable plan, i.e. provide cash to employees who do not need to keep records and submit supporting documents, then all payments to employees are treated as employee taxable income and non-deductible expenses for the company.

Usually, travel advances debts are recorded in balance sheets under 'Other Current Assets' and are not easily detectible.



**Unreturned travel advances are subject to a 3-year statute of limitation so upon expiration of this 3-year period they cannot be collected.**

If you want to check travel advances debts, ask your accountant to provide a debit balance of account 71 '*Raschetny s podotchetnimy litsam*' (Employee Reimbursement Account).

## Supporting Documents for Payments In Cash

### Cash Payment Limitation

Products and services of up to RUB 100,000 may be purchased in cash. Beyond that limit, payments should be made via bank accounts or credit/debit cards.

### Supporting Documents for Payments in Cash

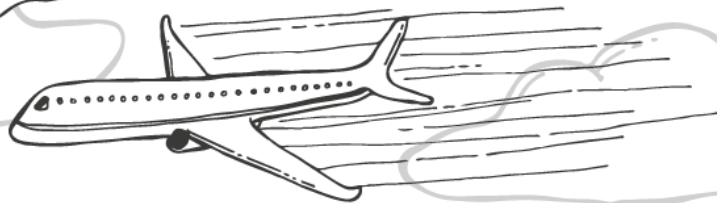
If payments are made in cash or with a payment card, then expenses should usually be supported by the following documents:

If you pay for...	Source documents for....		
	accounting purposes	income tax purposes	VAT deduction (if charged)
Accommodation	Cash register receipt ( <i>kassovy check</i> ) or handwritten receipt ( <i>kvitantsia</i> )		
Transportation by plane, train, bus.	Airline/plane/bus ticket		
Transportation by taxi	Cash register receipt ( <i>kassovy check</i> ) or handwritten taxi fare receipt ( <i>kvitantsia</i> )		
Gas expenses	Cash register receipt ( <i>kassovy check</i> ) Vehicle usage log ( <i>putevoy list</i> )	Cash register receipt ( <i>kassovy check</i> ) Vehicle usage log ( <i>putevoy list</i> )	Cash register receipt ( <i>kassovy check</i> )
Meals as business entertainment/hospitality expenses	Cash register receipt ( <i>kassovy check</i> )	Cash register receipt ( <i>kassovy check</i> ) Special form	Cash register receipt ( <i>kassovy check</i> )
Purchase of goods	Cash register receipt ( <i>kassovy check</i> )		

All tickets and supporting documents for expenses paid in cash must be attached to Form AO-1.

Records must be kept as long as prescribed by the Russian Tax Code.

Generally, this means records supporting deductions (or income) must be kept for 4 years from the date of filing of income tax return for which deduction is claimed.





## Counting Business Days of Travel

As travel expense amounts depend on the number of days away, we explain the general rules to count business trip days.

### Example 3

Alexander works as a sales manager at ABC Company. His regular place of business is Moscow, and his employer gives him a special assignment in Saint Petersburg.

Alexander leaves Domodedovo terminal in Moscow on Monday at 9 am, flies to Saint Petersburg for a business meeting with a potential client and returns to Moscow the same day at 5 pm

This is a typical example of a one-day business trip. In such case, the employer reimburses Alexander for transportation only, as it is presumed that the employee does not need accommodation and per diem allowance for a one-day trip.




### Example 4

Alexander's employer gives him another assignment in Saint Petersburg.

Alexander travels to Domodedovo terminal and leaves Moscow on Sunday at 9 pm, flies to Saint Petersburg and stays there in a hotel.

From Monday to Wednesday he meets potential clients in Saint Petersburg. On Wednesday he flies to Moscow and arrives at Domodedovo terminal at 11 pm and takes the AeroExpress to Paveletsky Railway Station where he arrives at 1 am.

The following table shows how to count business days while travelling in Russia on weekdays.

1			2	3	4	5		
0:00	Transportation day	23:59	Business day	Business day	Business day	0:00	Transportation day	23:59
Departure of plane/train/ bus etc.  If the airport/station is located far away from the city, travel time to get to the airport/station is taken into account.						Arrival of plane/train/ bus etc.  If the airport/station is located far away from the city, travel time to get to the airport/station is taken into account.		

The first day of a business trip is the day of departure of the chosen means of transport. As Domodedovo Airport is located far away from the city, the travel time to the airport is taken into account. Although Alexander starts meeting clients only on Monday, Sunday is counted as a business day as well (so-called **transportation day**).

The same rule applies to the return day. Alexander landed in Domodedovo Airport on Thursday, but he travelled and arrived in the city at 1 am on Friday.

Sunday and Friday are both transportation days and are counted as business days.

The employer has to reimburse to Alexander airline tickets and pay for accommodation and per diem allowance for 5 business days.



### Example 5

Alexander's employer sends him to Novosibirsk to meet two new clients on Friday and Monday.

Alexander travels to Domodedovo terminal and leaves Moscow on Thursday at 11 pm to fly to Novosibirsk where he stays in a hotel.

He meets his first potential client on Friday, stays for the weekend and has another meeting with a second client on Monday. On Tuesday, he flies to Moscow and arrives at Domodedovo terminal at 11 am. He then takes the AeroExpress to city where he arrives at 12 am.

The table below shows how to count the days when an employee has to stay away over a weekend for business reasons.

1	2	3	4	5	6
Thursday	Friday	Saturday	Sunday	Monday	Tuesday
Transportation day	Business day	<b>Weekend is treated as necessary standby days</b>		Business day	Transportation day

Despite the late departure, Thursday is counted as a business day (transportation day), because Alexander boarded the plane on Thursday before 23:59.

Friday and Monday are business days spent in meetings.

Although Alexander did not work on Saturday and Sunday, the weekend is counted as business days (necessary standby days).

The employer has to reimburse to Alexander airline tickets and pay for accommodation and per diem allowance for 6 business days (**including weekend**).

### Example 6

Alexander's employer sends him to Sochi to discuss business with a potential client.

Alexander travels to Domodedovo terminal and leaves Moscow on Thursday at 11 pm to fly to Sochi where he stays in a hotel.

He meets the potential client on Friday and stays over the weekend for personal reasons. He flies to Moscow on Monday and arrives at Domodedovo terminal at 11 am. He then takes the AeroExpress to city where he arrives 2 am.

If an employee remains for personal reasons at the business trip location over the weekend, then business trip days are counted as follows:

1	2	Not counted as business days!		3
Thursday	Friday	Saturday	Sunday	Monday
<b>Transportation day</b>	Business day	Employee remains at the business destination for non-business or personal reasons.		<b>Transportation day</b>

As Alexander remained in Sochi on Saturday and Sunday for personal reasons, the weekend is not counted as business days.

The employer has to reimburse to Alexander airline tickets and pay for accommodation and per diem allowance for 3 business days



### Example 7

Alexander's employer sends him to Helsinki to attend a training program. The corporate policy provides for the following per diem allowances: RUB 700 for travel in Russia and RUB 2,500 for travel outside Russia.

On Monday, Alexander travels to the Leningradsky railway station from his family home, then boards the Sapsan train and leaves Moscow at 3 pm heading to Saint Petersburg where he transfers to the Allegro train at 8 pm. On the same day upon arrival at a port-of-entry to Finland, the border protection officer stamps Alexander's international passport.

Alexander spends two business days in Helsinki (Tuesday and Wednesday).

On Thursday evening, he boards the Allegro train and leaves Helsinki. Later on the same day, he arrives Russia where the border officer stamps his passport.

Alexander returns to Moscow only on Friday morning.

The number of business trip days is counted as follows:

1	2	3	4	5
Monday	Tuesday	Wednesday	Thursday	Friday
Transportation day	Business day	Business day	Transportation day	Transportation day
<b>Date of entry into Finland</b> (stamp in international passport)			<b>Date of entry into Russia</b> (stamp in international passport)	
Special per diem allowance for travel outside Russia, if established by corporate policy			Standard per diem allowance for travel in Russia	



**Date of entry into a foreign country is treated as a date of travel outside Russia. Date of entry into Russia is treated as a date of travel in Russia.**

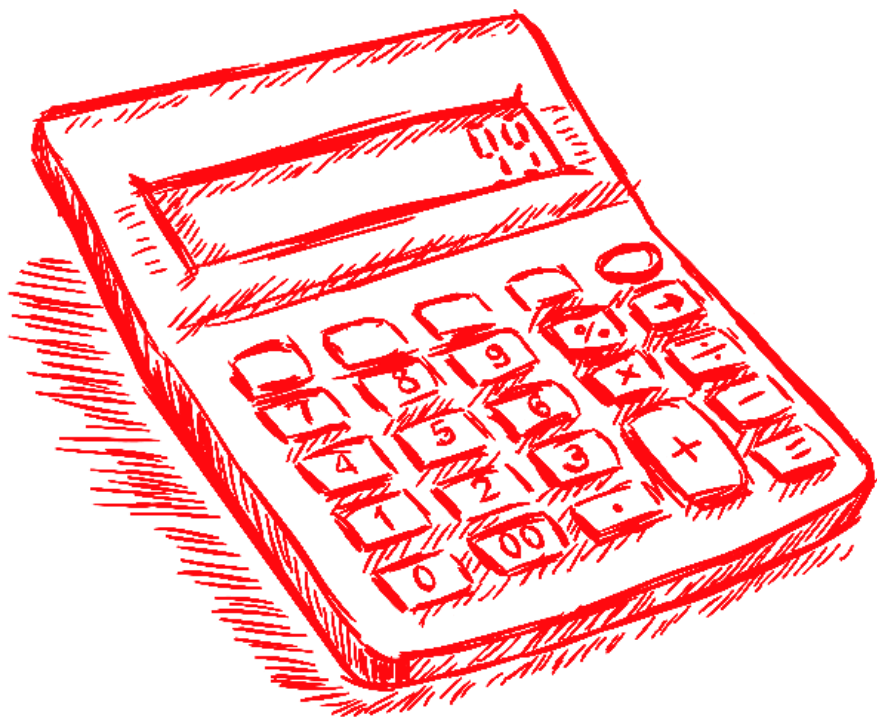
The employer has to reimburse to Alexander train tickets and pay for accommodation and per diem allowance calculated as follows:

Per diem allowance total:

$$\text{Days in Russia} \times \text{RUB } 700 + \text{Days outside Russia} \times \text{RUB } 2,500$$

Total per diem allowance:

$$3 \times \text{RUB } 2,500 + 2 \times \text{RUB } 700 = \text{RUB } 8,900$$

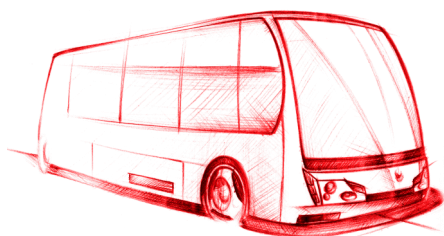




All expenses for transportation provided by carriers (travel by airplane/train/bus/taxi) between the regular place of business and business trip destination are deductible for tax purposes.

Tickets are the main supporting documents for transportation. They must be issued by a carrier to confirm that a seat has been purchased. In case of e-ticket, the paper copy needs to be kept to support expense.

If you travel by...	You need to keep...
Airplane	Airline ticket <b>and boarding pass</b>
Train	Train ticket
Bus	Bus ticket
Taxi	Cash register receipt ( <i>kassovy check</i> ) or taxi fare receipt ( <i>kvitantsiya</i> ).



### Car allowance

If an employee uses his/her own car to travel for business purposes, the employer has to compensate the use of the employee's car.

Russian Government Decree 92 dated February 08, 2002 provides that car compensation may be treated as deductible expenses only if within the following amounts:

For cars with...	Then the maximum deduction is...
2,000 cc engine or less	RUB 1,200 per month
more than 2,000 cc engine	RUB 1,500 per month

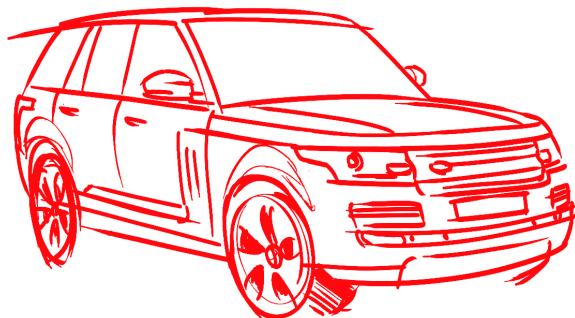
The allowance is exempt from the employee's taxable income.

In addition to car allowance, companies also customarily reimburse gas.

Other car maintenance expenses, such as oil, insurance, registration fees, repairs, tires, parking fees, tolls, etc. may also be deducted provided they are incurred for business purposes.

Business purposes of trips may be supported by a vehicle usage log (*putevoy list*).

The form of such log must be specified in the Corporate Tax Policy.





## Vehicle Usage Log (template)

Vehicle	Land Rover Freelander II 3.2 4WD				
Date	Destination (City, Town, other destination )	Business Purpose	Odometer Readings		
			Start	Stop	Kilometres
08/26/15	Moscow (Office - Client A - Office)	Negotiations with client	00010	00035	25
08/27/15	Moscow (Office - Tax Inspectorate - Office)	Appellate conference on the results of tax audit	00046	00059	13
Total for reporting period (month)					38

The standard rate is customarily determined by the Regulation on Fuel Consumption AM-23-r issued by the Russian Ministry of Transportation in the form of a guidance, which shows the basic rate of fuel consumption for 100 kilometers for a particular type of vehicle.

For instance, the guidance states that for a Land Rover Freelander II 3.2 4WD, the basic fuel consumption rate is 12.5 litres per 100 kilometers, but numerous adjustments may be made to the basic rate, e.g. if the car has air-conditioning, then the basic rate can be increased by 7 percent, etc.

An urban/extra-urban driving adjustment is allowed as well.

### Renting an employee's car

Another option for the reimbursement of car expenses is renting an employee's personal car for a business trip.

The rental charge is treated as a deductible expense for the company and taxable income for the employee.

If the employee uses the car for both business and personal purposes, the expenses must be divided into business and personal use.

The employee must keep a vehicle usage log to determine and prove the business-use portion of the expenses.

The table below shows the differences between compensation and rental schemes:

	<b>Compensation option</b>	<b>Rental charge option</b>
Legal basis	Employment contract (compensation option clause )	Rental agreement
Amount of expenses	As agreed in the employment contract	As agreed in the rental agreement
Deduction of expenses for the company	RUB 1,200 - RUB 1,500 (Plus other maintenance expenses)	Actual rental charge
Taxable income for employee	The compensation agreed (even in excess of RUB 1,200 - RUB 1,500) is exempt from personal income tax	Taxable for employee: the tax will be withheld from salary
Vehicle usage log	Required	Required
Other risks	None	<p>The rental charge can be treated as the employee's regular income.</p> <p>The employee must be registered as the sole proprietor and pay social security and medicare taxes on the rental earnings in addition to income tax</p>

## Accommodation Expenses

If employees pay for a hotel in cash or with a payment card, then they must keep the cash register receipt (*kassovyy check*).

The regulations governing the use of cash register by business entities allow certain taxpayers to produce handwritten receipts (*kvitantsia*) at a point of sale instead of printed cash register receipts.

Handwritten receipts (*kvitantsia*) usually contain the same information as cash register receipts and are treated as sufficient evidence of expense.

### Per Diem Allowance

Generally a per diem allowance covers:

- × Cost of meal;
- × Fees and tips for services;
- × Laundry, dry cleaning etc;
- × Room service.



**Russian tax regulations do not provide for any alternative to per diem method for reimbursing employee's meal cost and incidental expenses.**

**Meal costs and other incidental expenses cannot be treated as deductible expenses because they are already covered by per diem allowances.**

Meals may be treated as deductible expenses only if they qualify as hospitality expenses (discussed later).

Companies are free to set their own per diem rates or maximum allowances that employees are reimbursed for expenses incurred while on business trip.



**The portion of per diem allowance in excess of RUB 700 for travel in Russia and RUB 2,500 for travel outside Russia is deemed employee's taxable income.**

**The excess is treated as part of employee's taxable gross income and must be withheld from his/her earnings!**

**Example 8**

Alexander's employer has set the corporate per diem allowance rate at RUB 1,000 for business trip in Russia. Alexander was on business trip in Saint Petersburg, Russia for 3 days.

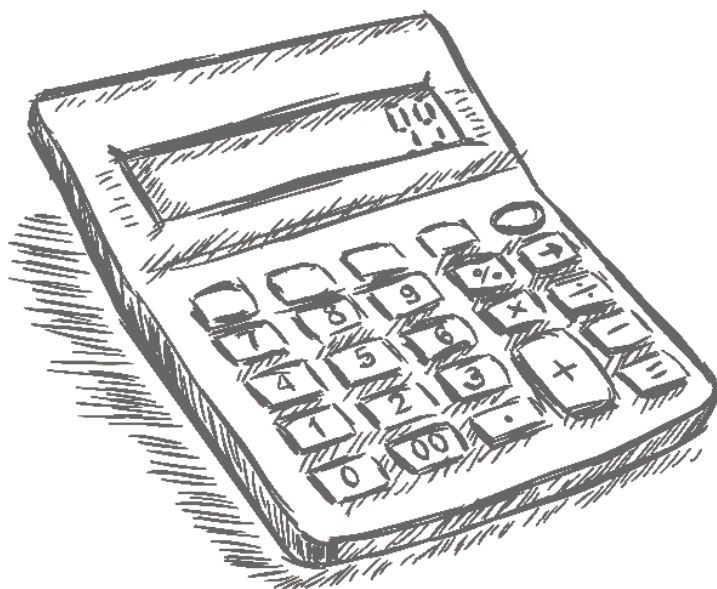
Alexander's employer can deduct RUB 3,000 as business expenses.

RUB 2,700 of Alexander's gross income will not be subject to tax, but the part of reimbursement exceeding RUB 700 a day will be treated as Alexander's taxable income.

The amount of personal income tax to be withheld from Alexander's salary is:

$$\text{RUB } 300 \times 3 \text{ days} \times 13\% = \text{RUB } 117$$

Although the above thresholds are set for personal income tax purposes, Russian employers often use them (RUB 700 RUB/RUB 2,500) for their default per diem allowance rates.



## Meals as Hospitality Expenses

The cost of a meal provided to a customer or client, whether the meal is a part of other entertainment or the only entertainment is treated as an entertainment or hospitality expense.

Meal expenses consists of the cost of food and beverages. To deduct an entertainment-related meal, employees must be present when the food or beverages are provided.

If an employee invites a customer or client to a cafe/restaurant for business purposes, the cost of this meal may be treated as a deductible business expense.

### Example 9

Alexander was on business trip in Saint Petersburg for 2 days.

On the first day, he had dinner in a café alone and spent RUB 500.

On the second day, he invited a potential client to dinner to discuss business. Alexander paid a bill of RUB 1,500.

Alexander's employer will not be able to deduct the cost of the first meal, because this expense is covered by the per diem allowance.

The cost of the second meal is tax deductible, because it is a business-related entertainment or hospitality expense.



**Do not confuse the restaurant bill with cash register receipt (*kassovy check*)!**

**Only the cash register receipt contains the information necessary for deduction, such as:**

- × seller's identification taxpayer number;
- × seller's business name;
- × nature and quantity of the goods/services sold.

In addition to the cash register receipt (*kassovy check*) you may have to prepare a special form on the event, showing the following details:

- × place of event;
- × business purpose;
- × participants;
- × results.



**Deductible business entertainment or hospitality expenses must not exceed 4% of total payroll for the tax year!**

**The excess is non-deductible.**

## Disclaimer

The information presented in this article is for educational and informational purposes only. It should not be construed as tax or legal advice.

The information presented here is of a general nature and does not take into account your financial/tax situation.

The information provided may be out-of-date, and there is no guarantee of accuracy and completeness.

Some regulations had different interpretations at the time of writing this article, so the author chose the best option at his/her own subjective professional discretion.

The abovementioned differences in interpretations may be eliminated over time, and a new general opinion or consensus of opinion may be

inconsistent with the author's view as expressed at the time of writing this article.

Russian regulatory authorities may interpret Russian tax law and business regulations in their own way so tax risks are not totally eliminated by taking actions on the basis of the information presented in this article.



Over the last 70 years, we have grown from a small and local family company into a large and successful international group. Today we are the largest financial and HR management service provider in Northern and Eastern Europe. Size does matter, because we want to build close relationships with our clients and invest in their future.

**100 000 clients**

**2300 employees**

**7 countries**









