



The gambling and betting regulatory system in Russia



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BETTING AND GAMING, RUSSIA

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This article provides an overview of the system and main restrictions and requirements for gambling businesses in Russia.

1. Historical and general overview

Before the adoption of the law on State regulation of activities in the gambling industry (Federal Law no.244-FZ dated 29 December 2006, "the Law"), gambling activities had no territorial limitations and could be exercised almost everywhere in Russia, especially in large cities. A PricewaterhouseCoopers study estimated the turnover of the gambling industry in Russia in 2005 in an amount of 6 bln. \$. Casinos and slot machines were popular and supplied huge turnout to the industry. However, gambling businesses often reported net losses and in that way did not meet the expectations of the Russian authorities as to tax revenue. The Russian authorities also considered that existing abundance of

casinos and slot machines created compulsive gambling problems among the population with modest income and eventually completely changed the regulation of the industry by adopting the Law in 2006, which introduced a general gambling ban, with some exceptions.

The ban on gambling in Russia became effective on 01 July 2009. The first special gambling zone "Azov City" in the Krasnodar region was established in 2010, where two companies opened three casinos and invested about 5,4 bln. Rubles during 4 years. In 2014 a new gambling zone in Sochi in the Krasnodar region was created. The Law allows only one gambling zone within the region, so the "Azov City" gambling zone was wound up in 2018. Investors cannot claim any reimbursement of money invested, since Russian laws do not envisage any compensation in the case of winding up of a special gambling zone.



Until now, the most profitable gambling zone in Russia is considered to be the one next to Vladivostok (called "Primorye") opened in 2015, which became popular with gamblers from China and South Korea (about 33,000 visitors a month). Investors plan to further develop the "Primorye" zone and build two casinos and more hotels. There is also proposal to build a golf course in the gambling zone. The Sochi gambling zone "Krasnaya polyana" created in 2016, replaced the first gambling zone "Azov City". The advantage of Sochi is that it is a city with good infrastructures developed for Olympic winter games, which is a popular resort and tourist place. "Krasnaya polyana" in Sochi has attracted 850,000 visitors from 146 countries during first two years of its existence. Professionals in the gambling industry told the Russian press that most of the special gambling zones in Russia were not very successful due to lack of infrastructures, tourists attractions and large cities close to the special zones. Besides, it turned to be a high risk investment for businesses in case of winding up of the zone, as it happened with "Azov City".

2. Legislation

Current Russian law regulates gambling and betting by special provisions of the Civil Code, the Law as recalled above, the Code on Administrative Offences, the Criminal Code, other laws and certain government acts.

The Law specifically states that lotteries and contracts relative to stock and commodity exchange trading are not considered gambling or betting and are excluded from the scope of the Law, as they are subject to separate regulations.

For the purposes of regulation Russian law splits gambling into two main categories:

- 1) gambling in strict sense, including all kinds of games of fortune and chance as well as slot machines, which is allowed only within specially assigned territories called

"gambling zones" and is subject to a license;

- 2) betting, including bookmakers gambling business and pari-mutuel betting (totalizator), which is subject to licensing but is not subject to territorial limitations.

The Law includes both general requirements and rules for all gambling activities, and special rules and requirements applicable to specified activities within the industry.

3. General requirements for businesses in the industry

The general requirements for entities engaging in gambling and betting are set out in the Law as follows:

- 1) to be a Russian legal entity;
- 2) to have net assets (net equity) in an amount of at least
 - 600 mln. Rubles (about 8.5 mln. euro) for companies engaging in gambling in casinos and gambling slot machine halls;
 - 1 bln. Rubles (about 14.3 mln. euro) for a bookmaking and totalizator operator activities;
- 3) to inform the State control authority (the Federal Tax Service) of its shareholders holding 10 per cent or a larger share in the company;
- 4) to undergo the compulsory auditing of annual financial statements;
- 5) to be a member of a special self-regulatory organization of the gambling and/or betting industry;
- 6) to place at the premises of the gambling operator or on Internet site of the betting operator:
 - full name and trademark/commercial mark used at gambling places, casinos, bookmaker's offices and totalizators;
 - text of the Federal Law on State regulation of gambling or a link to the text of the Law through the official State system of legal information (www.pravo.gov.ru);

- rules of casino/slot machines hall/bookmaker/totalizator, in particular for betting and wagering, and for payment of winning;
- copy of the license of casino/slot machines hall/bookmaker/totalizator with its attachments;
- copy of the decision on admittance to membership of the relevant self-regulatory organization.

The main special requirements for gambling businesses are set out by law and provide that gambling can be organized only within specified territories (gambling zones). There are 5 gambling zones in Russia located in the Altai region ("Sibirskaya moneta"), the Krasnodar region (the "Azov city" replaced with the "Krasnaya polyana" in Sochi), the Primorsky region (the "Primorye"), the Kalinigrad region (the "Yantarnaya") and the Crimea Republic (the "Crimea"). The exact territory of each gambling zone within these regions is specified by the Russian federal government. The decision of the government to create a gambling zone can include additional requirements and furthermore create subordinate State authorities.

All equipment used by a gambling operator must be owned. Gambling games may be arranged and performed only by employees who are at least 18 years old.

A casino and a gambling slot machine hall must be placed in separate buildings or be physically separated within the same building. Casinos should have at least 10 gambling tables and 800 sq. meters surface. Gambling slot machines halls should be at least 100 sq. meters in surface and operate a minimum of 50 machines. The average technical winning percentage (payout) of slot machines must not be less than 90%.

A casino can also include a gambling slot machines zone, which should meet special requirements, as well have a bookmaker and totalizator zone.

4. Special requirements for betting business

The Law allows bookmaker and totalizator activities outside of the special gambling zones and regulates its organization and maintenance.

The betting business outside of gambling zones is subject to a special license and must not offer slot machines and/or gambling tables.

Russian law features certain requirements for bookmakers and totalizator operators:

- 1) to have a charter capital in an amount of not less than 100 mln. Rubles (about 1.43 mln. euro) paid in cash;
- 2) to hold a bank guarantee valid for at least 5 years for an amount of not less than 500 mln. Rubles (about 7.2 mln. euro);
- 3) to host storage facilities for the processing of data relative to the calculation and payment of bets in Russia, and to be the owner of the processors;
- 4) to use for online betting only one domain name and own or have the right to operate such domain name;
- 5) to use for online betting and payment of prizes a special account opened at a control center of online bets with the participation of a self-regulatory organization, of which the bookmaker or totalizator operator are members;
- 6) to store information and data of accepted bets, paid winnings and developments and results of the events that are the object of betting on the territory of the Russian Federation for 6-12 months, depending on the type of information and any specific rules applicable;
- 7) to provide to the Ministry of Finance of the Russian Federation and the local tax authority quarterly accounting reports and annual financial statements.



Betting companies (bookmakers and totalizator operators) are furthermore obliged:

- 1) to check the age of a bettors and identify them in accordance with Russian law on anti-money laundering (Federal Law no.115-FZ dated 07 August 2001) before accepting bets (both offline and online) and before making payment of winnings;
- 2) to inform the relevant Russian sport governance body, the professional sport league and the gambling State control authority (the Federal Tax Service) of winning bets presenting unlikely results;
- 3) to keep a register of bettors at the bookmaker's or totalizator operator's premises, created and maintained in compliance with Russian personal data protection legislation, and provide data from the register to the State control authority;
- 4) to conclude agreements with professional sport leagues/organizations for the use of their names and symbols, make payment for such use in an amount of 5% of earnings and report on payments made on the basis of such agreements.

The minimum allowed age of customers of gambling and betting organizations is 18 years.

As previously noted, bookmakers and totalizator operators running betting and pari-mutuel gambling businesses need to be members of a special self-regulatory organization and also meet specific financial requirements on charter capital, assets and bank guarantee as stated above.

5. Online betting

The use of the Internet or telecommunication services for gambling is not allowed, apart from using it for making online bets, wagering and payment of winnings at the bookmaker's offices.

Online betting is described by the Law as a special way of payment through a specified control center of online bets for bookmakers and totalizator operators. Making bets by way of money transfer, including bank, general electronic and postal transfers, is prohibited. Bookmakers and totalizator operators can accept online bets received only from the control center of online bets, by a special electronic transfer.

The Russian Federal Tax Service creates and maintains a special list of Russian and foreign entities engaged in illegal gambling and betting (black list). Russian banks and credit institutions are prohibited from accepting any order for money transfer in favor of blacklisted entities. Besides, Russian banks and credit institutions are obliged to reject cross-border credit card payments in favor of any foreign entity, if they identify it as a foreign entity unlawfully conducting gambling or betting, or as a blacklisted entity.

6. Sanctions for non-compliance.

The Code on Administrative Offence (no.195-FZ dated 30 December 2001) includes two groups of sanctions for legal entities and natural persons:

- 1) for arranging gambling outside of a special gambling zones and/or without a prescribed license;
- 2) for breach of any special requirements for bookmakers and totalizator operators.

The first group of sanctions sets a range of fines for legal entities between 0,3 - 2,0 mln. Rubles. It also includes a special fine applicable to both the legal entity and its officers in case of presence of an underage person at a gambling premise.

The second group of sanctions sets fines both for legal entities and their officers, in the range of 0,5 – 1 mln. Rubles and 30,000 – 100,000 Rubles respectively.

Article 171.2 of the Criminal Code (no. 63-FZ dated 13 June 1996) envisages the criminal liability of person(s) arranging illegal gambling and breaching

legal requirements for gambling and betting, starting from fines in an amount of 0,5 – 1,5 mln. Rubles and up to maximum of 6 (six) years imprisonment.

7. Taxation.

In accordance with Russian law legislation, gambling services are not subject to VAT. There is a special tax for gambling activities, which sets a list of items that are subject to taxation, including gambling tables, slot machines, betting stations, etc. The Tax Code sets the rate ranges of the tax for each item. The exact taxation rate is set by regional laws.

The tax rate for gains/winnings in gambling is 13% for Russian tax residents, which is the same rate as for all other income of natural person. Gains up to 4,000 Rubles are not subject to taxation. The amount of the bet is exempt from income tax and is deducted from base sum of taxation. If the winning amount is less than 15,000 Rubles, the tax shall be paid by the person himself, while with respect to winnings in amount of 15,000 Rubles and above the gambling business acts as a tax agent of the person, withholds the tax amount and pays it to the State tax authority.

8. Market highlights.

The ban on gambling became effective from 2009. Specialist sources, though, confirmed that after the adoption of the Law and the closure of casinos and slot machine halls all over the country, the betting market as the only legal option for gamblers increased in size. In 2017 it was estimated to be worth 700 bln. Rubles (about 10 bln. Euro) both for online and offline betting. Further increases of betting activities are expected only in online sector. Based on information provided by the industry, 70% of bettors prefer to make bets only online, 15% only offline at bookmakers' premises and the rest 15% use both. Russian independent online magazine "Betting Business Russia" reported an average monthly number of visitors of the

top 5 sites of bookmakers to be 26,28 mln. with the following split:

- fonbet.ru – 10,63 mln.
- 1xstavka.ru – 5,88 mln.
- ligastavok.ru – 3,66 mln.
- betcity.ru – 3,06 mln.
- winline.ru – 3,05 mln.

However, specialist sources also say that the illegal gambling business in Russia is larger than the whole gambling industry prior to the ban. Casinos and slot machines were moved "underground" and are even more profitable than before, since illegal business do not pay any taxes, and use the benefits of Internet and online gambling without any limitations. Illegal casinos are concentrated in Moscow and the Moscow region, Saint-Petersburg and the Krasnodar region. State authorities reported that illegal casinos in Moscow gained more than 350mln.Rubles. during 2018. Experts estimate the total market of illegal online casinos in amount of 1 bln. \$. In accordance with the sociological survey of reputable Russian analytical center "Levada center" conducted in 2017, 4,8 mln. of Russian citizens play cards and 2.4 mln. gamble at casinos and on slot machines. These figures are higher than official number of visitors of special gambling zones.

9. Upcoming changes to the Law.

The latest amendment to the Law adopted on 27 December 2019 comes into force on 28 March 2020 (Federal Law no. 495-FZ dated 27 December 2019) and introduces another type of gambling – where the wager depends on the fluctuation of prices for goods, securities, currency exchange rates, interest rates, inflation rates, environmental data, or any other event with an unknown result, or where consecutive bets on several events constitutes a connected betting, or where a bet on a later event is made before the result of preceding event is known and under the condition that the wager on the earlier event won. In order to prevent illegal betting disguised as professional equity market operations, the Law describes in detail the permitted types of data and limits applicable to betting



operations, casinos and slot machine halls within special gambling territorial zones. Conditional bets in bookmakers and totalizators halls are not allowed.

The same amendment to the Law adds an obligation of bookmakers and totalizator operators to inform the control authority of bank guarantees obtained and expired.

10. Final remarks.

To sum up, one could say that the legislative and regulatory landscape of gambling and betting in Russia is, in broad terms, not too different from that of most EU jurisdictions. The one notable difference is perhaps the special gambling zone concept, which is not present in the European Union (however, for instance in Italy, where the gambling market is huge, having reached in 2019

an aggregate value in excess of 100 bln. Euro, there are only four (4) licensed physical casinos). With the advent of the Internet and the exponential increase of the volume and value of online gambling and betting, Russia too is confronted with addiction problems, which typically affect low-income, low-culture citizens. And Russia too will need to address a seemingly unsolvable conflict between two primary policy objectives, i.e. protecting the health and well-being of citizens, and not renouncing tax revenue from gambling, which is substantial and above all easy to collect. We will watch and monitor closely legislative and regulatory developments in Russia, and promptly report to our readers accordingly.





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