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REMOTE SALE OF RUSSIAN REAL ESTATE FROM THE UNITED STATES

A GUIDE FOR U.S. TAX RESIDENTS

Deal Structuring | Sanctions and Banking Risks | Getting Money Out of Russia
Taxes in Russia and the U.S. | FBAR and FATCA

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I. WHO THIS GUIDE IS FOR AND WHY

> *Selling Russian real estate from the U.S. works differently than it does for someone living in Russia: ordinary civil-law mechanics are overlaid with currency restrictions, sanctions, and the requirements of the U.S. tax system.*

A. Who This Guide Is For and Why

If you are a U.S. citizen or tax resident and you own an apartment, house, or share of real property in Russia, selling that property works quite differently than it does for someone living in Russia. On top of the ordinary civil-law mechanics of the deal — the power of attorney, the notary, Rosreestr, the letter of credit — two additional layers are superimposed that typical articles on selling real estate simply don't address: whether the money will actually reach your U.S. account at all, and what the U.S. tax system — which views the transaction very differently than the Russian one does — will make of it.

It's worth addressing separately a situation familiar to a great many of my clients: holding a second, Russian citizenship changes nothing in this picture. In Russia, such a seller is regarded first and foremost as a citizen of the Russian Federation, and the transaction proceeds under the general rules of civil commerce. But for U.S. authorities you remain a tax resident obligated to report every dollar received from the sale — regardless of which passport you used when signing the agreement in Russia.

Such a transaction typically proceeds through eight stages: analyzing the applicable restrictions, preparing the power of attorney, choosing a settlement structure, vetting the buyer, signing the agreement and registering the transfer of title, transferring the funds to the U.S., closing out Russian tax obligations, and, finally, U.S. reporting. Each stage is examined below — along with what can be done in advance, before anything is signed.

B. When It Makes Sense to Seek Counsel

This is perhaps the most practical advice in the entire guide: you should reach out not once the deal has already stalled, but before the power of attorney is issued, before a preliminary (deposit) agreement is signed, before a letter of credit is opened, and before a specific bank is chosen. Once the documents are signed and the settlement process is underway, the room for correcting mistakes shrinks very quickly — most of the costly problems clients bring to me were built in at precisely these early, seemingly routine steps. This isn't just a matter of convenience: Russia is today a high-sanctions-risk jurisdiction, and an incorrectly structured settlement scheme or the wrong choice of bank at the outset can result not only in delaying the deal but in independent legal liability in the U.S. itself. That is exactly why it makes sense to obtain advice before taking any action, not after it has already been taken.

II. FIVE RISKS YOU PROBABLY HAVEN'T THOUGHT ABOUT

> *The real points of failure almost always lie where you don't expect them: money gets stuck on the Russian side, exchange-rate movements create “phantom” gain for the IRS, and an ordinary power of attorney can bring a deal to a halt.*

When someone living in the U.S. first confronts the sale of a Russian apartment, they typically brace for the “usual” risks — a bad-faith buyer, problems with the paperwork. In practice, however, the real points of failure are almost always somewhere else entirely.

Most often, money gets “stuck” on the Russian side: tax residency in an “unfriendly” jurisdiction by itself creates restrictions on how the buyer can pay you, up to and including a special account regime whose funds cannot be freely transferred abroad without a separate authorization. Beyond that, the bank through which the letter of credit is opened may unexpectedly turn out to be under blocking sanctions: a settlement structure that is standard for a purely domestic Russian transaction is physically unworkable for a transfer to the U.S. if such a bank is involved, and the money either never arrives or is frozen by the correspondent bank on the American side. A separate and very common problem is a power of attorney executed “the usual way” in the U.S., without first checking whether the specific territorial office of Rosreestr will accept it. Practice varies noticeably from region to region: some offices accept a notarized power of attorney with an apostille, while others insist specifically on consular legalization, doubting that an American notary public's authority is sufficient to perform such an act under Russian law. This is a recurring cause of rejection or delayed registration. In my experience, the power of attorney is the single most frequent cause of a deal stalling — far more often than a dispute with the buyer or a problem with the title documents themselves.

There is also a purely tax-driven trap — currency-translation gain when the ruble weakens. The IRS computes capital gain exclusively in U.S. dollars, translating both the purchase price and the sale price at the historical exchange rates on the respective dates — which can make ruble-denominated gain and dollar-denominated gain look completely different. In practice you can end up with only a small profit, or even a loss, in rubles, while the dollar conversion produces a substantial taxable capital gain — simply because the dollar-to-ruble rate rose significantly over the years of ownership. That said, given the real appreciation in Russian real estate prices, the property will most often show a gain in both ruble and dollar terms, but its ultimate size for IRS purposes will be driven by currency movement. Here is an example: if the apartment was purchased when the dollar was worth 30 rubles and sold at a rate of 90 rubles to the dollar, then even with only moderate ruble-denominated price growth, the dollar-denominated cost basis turns out to be comparatively low and the dollar-denominated proceeds comparatively high, and the difference flows straight into taxable capital gain. That is exactly why the currency revaluation needs to be modeled in advance, not after the fact when the return is filed.

Finally, a Russian bank account opened solely to receive the sale proceeds is, from a U.S. standpoint, already a foreign financial account, and failing to disclose it is a separate violation — regardless of whether any taxable income arose at all.

III. POWER OF ATTORNEY: CONSULATE, NOTARY, AND APOSTILLE

The power of attorney is the first document the buyer and Rosreestr see, and it tells them, at a glance, how well the deal has been prepared. You have two practical paths for executing it.

The first is through a Russian consulate in the U.S. The document is drafted directly in Russian, in the form Rosreestr requires, but appointments at consular offices are, as a rule, not available on short notice, and the waiting time needs to be built into your planning well in advance rather than tied to the deal's deadlines.

The second path is execution before an American notary, followed by an apostille from the Secretary of State of the relevant state and, typically, a notarized translation once in Russia. It is faster and doesn't depend on the consular calendar, but this is exactly where the main practical risk hides: you need to find out in advance whether the specific territorial office of Rosreestr where the transfer of title will be registered will accept a notarized power of attorney with an apostille rather than a consular one. Practice is inconsistent across regions: some offices accept such powers of attorney without difficulty, while others — based on internal, not always formally codified, positions — insist specifically on consular legalization, doubting that an American notary public's authority is sufficient to perform such an act.

This doubt is not arbitrary; it has a legal basis. Under Russian law, a power of attorney for real estate transactions must be notarized, and notarization under the civil-law system involves not only confirming the signer's identity but also a legal review of the document — verifying authority, capacity, and the lawfulness of the transaction's substance — which only a notary with the corresponding competence is authorized to conduct. An American notary public, unlike a Russian notary, does not by default hold that status: in its basic form, a notary public's authority is limited to verifying the signer's identity and witnessing the signature, without any legal review of the document's substance. That is precisely why a number of territorial Rosreestr offices, in practice, take the position that the American notary certifying the power of attorney must simultaneously hold the status of a practicing attorney — in the view of the relevant registrars, only that fills the gap left by an ordinary notary public's lack of authority to conduct a legal review.

In practice, this issue is resolved when the power of attorney is certified by a notary who is simultaneously a practicing attorney and legal counsel qualified in foreign (in this case, Russian) law: in that case the notarial act is performed directly under the applicable foreign law, with that fact stated in the certification clause itself, and the notary holds a confirmed qualification to conduct the legal review. My office provides exactly this service on that basis: I am simultaneously a practicing attorney and a New York State notary public, as well as a New York-licensed foreign legal consultant in Russian law, and this qualification is reflected in the supporting documentation accompanying every power of attorney I prepare. This regularly removes the grounds for suspending registration in situations where a standard power of attorney from an ordinary notary public would be rejected — and the solution here is not to rely on a generic American template translated after the fact, but to tailor the power-of-attorney language in advance to the requirements of the specific Rosreestr territorial office and to establish the certifying party's qualifications up front.

A separate fork in the road is how many material terms to build into the power of attorney itself. If it includes essential terms — such as the price or account details for settlement — a dilemma arises: too rigid a price hampers negotiation, while too general a formulation increases the risk to the principal. In practice, a two-power-of-attorney structure works well: a first power of attorney for negotiations and document collection, and a second, principal power of attorney with fixed material terms, which is handed to the buyer only once preliminary agreement on price has been reached.

The document package typically also requires certain mandatory consents: a notarized and apostilled spousal consent (with information about all marital agreements, or their absence), guardianship-authority approval if a minor or an incapacitated person holds an interest in the property, and a waiver of the right of first refusal when a share is being sold — which likewise requires an apostille when signed abroad.

IV. SETTLING THE TRANSACTION: LETTER OF CREDIT AND TRANSFERRING FUNDS TO THE U.S.

> *This is where money and time are most often lost. The specific banking structure is put together on a case-by-case basis, but the overall logic of the process needs to be understood in advance.*

A. Currency Restrictions and the “Type C” Account

This is the section where money and time are most often lost — and it's important not to confuse a general understanding of how the process works with a ready-made set of instructions. The specific banking structure is assembled individually every time, based on the client's status, the property, and the current list of usable banks, so what follows is only what you need to know in order to ask your attorney and your bank the right questions.

The problem is that the overwhelming majority of large Russian banks are under blocking sanctions. A transfer involving such a bank is either technically impossible or results in the funds being frozen on the U.S. correspondent bank's side. In addition, a seller located in an “unfriendly” jurisdiction falls under the regime established by presidential decrees on special economic measures: if the transaction is structured incorrectly, the buyer may, by law, be required to deposit the funds into a so-called “Type C” account — a special blocked account from which withdrawing funds to the U.S. without an individual authorization from the relevant subcommission of the Russian Government Commission is, in practice, nearly impossible. That is exactly why the transaction structure is designed in advance to knowingly avoid falling under this regime — this is one of the key tasks handled at the preparation stage, not after the funds have already landed in the wrong account.

A caveat is warranted here for clients with dual citizenship. The Type C account regime and the requirement for subcommission authorization are aimed primarily at non-residents — foreign nationals, or former Russian citizens who have renounced their Russian citizenship. A citizen of the Russian Federation who retains that citizenship is, as a general rule, treated as a resident for Russian currency-control purposes regardless of also being a U.S. tax resident, and in that case the standard practice at a number of banks is not to apply the Type C account regime to them. This is a general rule, not a guarantee for any specific transaction: individual banks' and regional branches' approaches vary in practice, so whether the regime applies to a dual-citizen seller should be confirmed on a case-by-case basis before the letter of credit is opened, not after the fact.

B. Receiving Money in the U.S.: AML and Source of Funds

There is a second side to the same coin — receiving the money once it reaches America. American banks are wary of any inbound funds from jurisdictions that fall into the politically sensitive category, and Russia, in this sense, is one of the most closely scrutinized sources of funds, regardless of how clean the underlying transaction itself is. When a substantial deposit whose origin traces back to a sanctioned jurisdiction lands in a client's account at a major U.S. bank, the receiving bank's compliance department will often freeze the payment and request confirmation of the source of funds — sometimes without any advance warning, stretching the freeze out over weeks.

The correct sequence is not to wait for that request but to notify the bank yourself, in advance, before the transfer is initiated, about the upcoming large deposit, and to attach to that notice an AML memorandum prepared by counsel: a document that walks through, step by step, the origin of the funds and their entire chain of custody — from the sale of the property in Russia to the specific deposit into the U.S. account — supported by the purchase-and-sale agreement and its notarized translation, an extract from the Unified State Register of Real Estate (EGRN), and a computation of the taxes paid in Russia. It's important to understand that what needs to be reviewed for sanctions exposure is not only the issuing bank but every link in that chain: if an intermediary was used at any stage of the transfer — for example, a digital-asset exchange — it, too, must be separately vetted and documented in the memorandum, because sanctions exposure at any single link can block the entire payment even if the underlying real-estate transaction is entirely lawful.

You should not underestimate the U.S. sanctions regime: it recognizes no concept of minimal, insignificant, or merely technical assistance. For purposes of U.S. sanctions law there is no de minimis threshold — even a small residual balance in a deposit account at a sanctioned Russian bank, or even a single small payment to or through it, can formally be treated as providing financial assistance to a blocked person, and can trigger liability for the account holder or the sender of the payment, ranging from civil penalties to criminal prosecution where the violation is willful or systematic. This is exactly why the sanctions status of the bank and of every intermediate link must be checked in advance and on a transaction-by-transaction basis, not once at the start of the deal.

It's worth setting expectations realistically here: as things stand today, there is essentially no such thing as a direct transfer of funds from a Russian bank straight to a U.S. bank — that channel is either technically closed or gets blocked on the correspondent bank's side. So there is always an intermediate step involved. One option is to expatriate the sale proceeds to a bank in a third country that is not on the “unfriendly” list and that still maintains a correspondent relationship with the Russian bank, followed by a second, separately vetted transfer from there to the U.S. Another option is to purchase movable property or digital assets within Russia that can subsequently be lawfully exported or sold outside Russia, with the resulting proceeds then transferred to the U.S. A third, less obvious option is an offsetting arrangement with a counterparty who holds dollars in a U.S. bank account and needs rubles in a Russian account: the seller transfers rubles from their Russian account to that counterparty's Russian account, and the counterparty transfers an equivalent dollar amount from their U.S. account to the seller's U.S. account. Each of these routes carries its own tax, currency-control, and compliance risks, which must be assessed individually and documented no less thoroughly than a direct transfer would be. The route involving the purchase of digital assets deserves a separate note: starting September 1, 2026, it becomes subject to new cryptocurrency regulation, including a restriction on independently withdrawing cryptocurrency purchased in Russia to a personal wallet — details and the current limits are set out in Section IV.D below.

C. Mechanics of the Letter of Credit

The mechanics of the letter of credit itself remain standard: the parties enter into the agreement, the buyer deposits the covering funds and opens the letter of credit, the seller's representative provides the bank with the confirming documents — typically an EGRN extract and a copy of the agreement bearing Rosreestr's registration stamp — after which the bank reviews the documents and releases the funds. It is advisable to use an irrevocable, covered (funded) letter of credit — today's market standard. Before opening it, you should find out from the bank in advance the exact list and format of documents that will be required for disbursement, and confirm that the language of the principal power of attorney expressly authorizes the representative to deal with the letter-of-credit proceeds to an extent the bank will consider sufficient.

D. Legal Channels and Capital Outflow Limits

Before choosing a specific channel for transferring the sale proceeds, it helps to have the quantitative picture in view: several parallel systems of limits operate simultaneously under Russian currency and special-measures regulation, depending on the transfer method and the recipient's status. The Bank of Russia regularly extends and revises these restrictions, so the current figures should be re-verified immediately before the transaction — but as of today, the benchmarks look as follows.

1. **Bank transfer abroad (SWIFT / correspondent accounts).** A warning up front: the figure in this item is among the most volatile in the entire guide. The USD 1,000,000 (or equivalent) monthly cap that applied for several years to citizens of the Russian Federation and residents of “friendly” countries was lifted by the Bank of Russia effective December 8, 2025, and as of today there is no formal ceiling for that category; restrictions remain only for non-residents of “unfriendly” states. But this rule has already been introduced, extended, and repealed multiple times in recent years, so it needs to be re-checked immediately before the transaction rather than relied on from this guide. And even where the Central Bank's limit is absent, that is rarely the decisive factor: as shown in Section IV.B, a far tighter constraint is not the Russian regulator's limit but the willingness of the correspondent bank and the receiving U.S. bank to process a payment from a counterparty connected to a sanctioned Russian bank.
2. **Money-transfer services without an account.** Up to USD 10,000 per month — this channel is suitable for incidental needs, not for the principal transaction amount.
3. **Domestic transfers within Russia prior to outbound transfer.** The Faster Payments System between one's own accounts is statutorily capped at RUB 30,000,000 per month, but a given bank's daily limits are often lower; transfers by account details are limited by the bank's own online/remote-banking limits — typically RUB 500,000 to 10,000,000 per day, depending on the service package.
4. **Purchase of digital assets.** On August 4, 2026, Federal Law No. 282-FZ “On Digital Currencies and Digital Rights” (together with companion Law No. 283-FZ) was signed; most of it takes effect September 1, 2026. Lawfully purchasing cryptocurrency for rubles within Russia will only be possible through intermediaries licensed by the Bank of Russia; the market's full transition to this infrastructure is scheduled for July 1, 2027. The final signed law confirms an annual purchase limit of RUB 300,000 for non-qualified investors through a single licensed intermediary. There is no annual limit for qualified investors. Separately, the law introduces a systematic-activity threshold for P2P transactions — two or more transactions per month exceeding RUB 3,500,000 in total formally indicate the characteristics of exchange-operator activity and require registration in the Central Bank's registry (a transition period runs through June 30, 2027). Directly paying for goods, services, or real estate with cryptocurrency

in Russia remains prohibited. And, most importantly for capital-outflow purposes: the law generally does not allow cryptocurrency purchased within the licensed Russian ecosystem to be withdrawn directly to one's own non-custodial wallet — that is possible only if the receiving address is administered by a foreign organization that is authorized under its own law to hold accounts for third parties; no exemptions have yet been issued by the Bank of Russia. Accordingly, the "buy crypto in Russia and withdraw it yourself" approach is not, today, a ready-made solution and requires a separate legal review at the time of the transaction. On top of this new regime, the older anti-money-laundering filters under Federal Law No. 115-FZ remain in place: off-exchange P2P transfers to individuals of RUB 600,000 or more (and, under certain Central Bank methodological guidance, a series of transfers of RUB 100,000 or more per day) regularly result in a card or remote-banking service being blocked until documentation of the source of funds is provided.

5. **Purchase of movable property.** Non-cash purchases of gold bars and investment coins are not capped by amount, but transactions of RUB 1,000,000 or more (RUB 600,000 or more for jewelry) are subject to mandatory monitoring under Federal Law No. 115-FZ; cash settlements between an individual and a legal entity are capped at RUB 100,000 per agreement. A separate customs dimension also applies: physically exporting purchased bars or coins from Russia triggers EAEU customs rules and Russian law, including mandatory written declaration above the threshold set out in item 6 below, as well as customs duties and export-control rules as such; on entry into the U.S., additional requirements apply under U.S. Customs rules for declaring imported valuables and precious metals.
6. **Physically carrying cash across the border.** Carrying foreign cash currency in excess of USD 10,000 per person out of Russia is prohibited outright, not merely subject to a declaration requirement; carrying rubles or precious metals worth more than the equivalent of USD 10,000 requires mandatory written customs declaration.

Practical takeaway for planning purposes: if the transaction amount noticeably exceeds the annual or monthly limit of the chosen channel, the capital outflow should be structured in advance across several tranches and, potentially, several channels simultaneously — keeping in mind that each channel has its own compliance profile and requires separate documentation of the source of funds. This needs to be thought through at the earliest stage of planning the deal, not at the moment the money already needs to go somewhere.

E. Buyer as a Legal Entity

A separate situation to keep in mind is one where the buyer is not an individual but a legal entity or a sole proprietor — for example, a developer buying back an apartment under a trade-in scheme. In that case the buyer may act as a tax agent and be required to withhold Russian personal income tax — at a 30% rate for a non-resident of Russia — directly at the time of payment, which directly affects the net amount the seller ultimately receives and needs to be factored in when the price is negotiated in the agreement.

V. TAXES IN RUSSIA AND THE U.S.

> *Two independent layers of taxation: a Russian holding-period exemption does not relieve you of your obligations to the IRS, and dollar-translation gain can create an unexpected capital gain.*

A. Taxes in Russia

The Russian tax consequences of a sale depend on two factors: Russian tax-residency status and the holding period. Effective January 1, 2019, individual non-residents of Russia are exempt from personal income tax (NDFL) on the sale of property held longer than the minimum holding period — five years, or three years if the property was acquired before January 1, 2016 (Article 217.1(4) of the Russian Tax Code). If the holding period is shorter, the income is taxed at 13% for a Russian tax resident and 30% for a non-resident (Article 224(1) and (3) of the Russian Tax Code), and, unlike a resident, a non-resident is not entitled to claim the property deduction or reduce income by acquisition costs. It's also worth remembering that property acquired during marriage is treated as jointly owned regardless of whose name it is registered in or who paid for it — this matters for determining the holding period and the required documentation.

B. Taxes in the U.S.: Why Clients Turn to an NY Attorney + EA

This is the section most often missing from Russian-language materials on selling real estate — and it's exactly where the costliest mistakes tend to arise.

The “phantom” currency gain already mentioned arises because the IRS computes capital gain in U.S. dollars: the purchase price is translated into dollars at the exchange rate on the purchase date, and the sale price at the rate on the sale date. This difference needs to be modeled in advance, not after the fact when the return is filed.

Next comes foreign-account reporting. Opening an account or a letter of credit at a Russian bank to receive the sale proceeds makes it a foreign financial account for U.S. purposes, which creates two separate obligations. FBAR (FinCEN Form 114) must be filed if the aggregate balance across all foreign accounts exceeded $10,000 at any point during the year, and penalties for failing to file start at $10,000 per year and can be substantially higher if the violation is found to be willful. In parallel, the FATCA requirement (Form 8938) applies as part of the tax return itself, with its own thresholds depending on filing status and residence — and it does not replace FBAR: both are generally required. It's important to understand that these are reporting requirements, not tax requirements as such — they apply regardless of whether any taxable income from the sale arose at all.

Tax paid in Russia can generally be credited against U.S. tax liability through the Foreign Tax Credit (Form 1116). As for benefits under the U.S.–Russia income tax treaty — the operation of its key provisions is currently suspended by both sides, which in practice makes direct application of the treaty's benefits and provisions effectively unavailable. It is worth noting, as a point of academic interest, that the treaty's text contains no express mechanism for suspending its operation, and the U.S. is not a party to the 1969 Vienna Convention on the Law of Treaties, which otherwise addresses such procedures. In practice, however, both governments have treated the suspension as effective and mutually agreed — the U.S. Treasury's own announcement frames it as a suspension by mutual agreement — and both the IRS and practitioners generally proceed on the basis that the treaty's key provisions are unavailable. Nevertheless, for practical purposes in dealing with the IRS, one should proceed on the assumption that U.S. tax authorities take the position that the treaty is suspended. Any tax position that relies on the treaty (a treaty-based return position) requires individualized legal analysis and an assessment of whether disclosure under Form 8833 is required, taking into account the existing risks and exceptions.

It's also worth checking whether the exclusion under IRC Section 121 applies: if the Russian property sold was the seller's principal residence for at least two of the last five years, up to $250,000 of capital gain is excluded for a single taxpayer, and up to $500,000 for a married couple filing jointly. This rule applies to foreign real estate exactly as it does to U.S. real estate, but in practice the IRS may require proof of actual physical residence in that specific property — utility bills, residential-registration stamps, tax returns filed for that period listing the address — rather than mere ownership.

This is also the place to discuss what can be done in advance, before the transaction, rather than after the fact. Shifting the sale date into the following tax year can sometimes allow income to be allocated more advantageously between periods. A change in a married couple's filing status, or a preliminary division of property, can affect how the capital gain is computed and whose Section 121 limit applies. If there are capital losses on other assets in the same year, or a carryforward loss from prior periods, they can be applied against the gain from the real estate sale — but only if this is planned before, not after, the return is filed. It is exactly this kind of advance planning — rather than an after-the-fact accounting of what happened — that distinguishes working with a specialist from simply having a return prepared.

C. Special Cases

Inherited and gifted property require separate analysis, because the timing and method of determining value for Russian and U.S. tax purposes differ, and the cost basis for U.S. tax purposes is determined differently than for an ordinary purchase. A separate and very practical problem is documenting that basis. It is especially acute for privatized housing: if the property was privatized long ago, often before 2000, documenting the actual acquisition cost is frequently extremely difficult or altogether impossible. In the absence of such documentation, the IRS may refuse to accept the claimed basis, in which case tax will have to be paid on the entire amount received from the sale, with no deduction for the original acquisition cost — a fundamentally different and much higher result than under an ordinary capital-gain computation. It's also worth remembering that basis can be increased by the cost of capital improvements and renovation, but only if those expenses are properly documented — construction contracts, payment records, completion certificates — rather than reconstructed from memory after the fact.

Special attention is also warranted for spousal joint property where one spouse is not a U.S. resident or citizen — in that case, allocating the sale proceeds and filing the returns requires an individualized plan. There is no universal formula for such scenarios; each is handled on a case-by-case basis.

VI. DUE DILIGENCE AND COMMON MISTAKES

A. Due Diligence: The Representative, the Realtor, and the Buyer

This part of the process most often determines whether the deal reaches completion without ending up in litigation. For the representative acting under the power of attorney and for the realtor, you should verify the validity of their passport (including the mandatory renewal requirements at ages 20 and 45), check for litigation, enforcement proceedings, and bankruptcy proceedings, and check their reputation — reviews, insurance coverage, membership in professional associations, and experience specifically working with foreign owners. The buyer and the buyer's representative should be vetted in a similar way: passport validity checked against government databases, litigation and enforcement proceedings, publicly available information and, where possible, feedback from the employer, business partners, or neighbors, along with a bank statement confirming that funds for the deal are actually available.

Any doubt about a counterparty's good faith — even an intuitive one — is sufficient grounds to walk away from the deal and look for an alternative. And when the agreement is signed outside a notary's office, it is worth video-recording the entire process: there have been cases where the page containing the price was swapped out at the very moment of signing, under the pretext of a minor technical correction, and challenging that afterward in court is extremely difficult.

It's also worth taking care in advance of documents that won't be needed at the moment of the sale itself but when preparing the U.S. tax return: the purchase agreement and payment records for the property, any valuations of it, proof of capital-improvement expenses (which increase the cost basis and reduce future capital gain), records and bank statements of the transfers, Russian tax documents relating to the sale and, given the currency-translation factor, documentary evidence of the ruble-to-dollar exchange rate on both relevant dates — purchase and sale. Clients who keep these documents as the deal progresses, rather than trying to reconstruct them afterward, save both time and money when it comes time to prepare the U.S. filing.

B. Common Mistakes

Based on experience handling these transactions, the same set of mistakes tends to recur most often among clients:

1. **A power of attorney copied from a template found online, or executed before an ordinary notary without legal review.** Using boilerplate language, or having the power of attorney executed by an American notary public who does not hold attorney status, without adapting it to the requirements of the specific Rosreestr territorial office, is a frequent cause of rejection or suspended registration, since under Russian law a real-estate power of attorney requires review of the transaction's lawfulness and the party's competence.
2. **Using a sanctioned bank for settlement and the letter of credit.** Opening an account or letter of credit at a bank under U.S. blocking sanctions (the SDN List) subsequently blocks any further transfer of the funds to the U.S. or causes them to be frozen by the correspondent bank.

3. **Failing to verify the entire chain of custody of the funds.** Routing funds through intermediary platforms, P2P exchangers, or third-country banks without first checking their sanctions and AML profile can result in the payment being blocked by the receiving U.S. bank.
4. **Closing the Russian account prematurely.** Closing the Russian account immediately after the letter of credit is disbursed makes it impossible to obtain a refund or to provide additional documentation later if requested by the bank's compliance department or by the tax authorities.
5. **Ignoring U.S. tax reporting (FBAR, FATCA, Form 8938) and computing tax off the ruble-denominated statement.** This includes the mistaken belief that the absence of Russian tax (due to the holding period) relieves the taxpayer of U.S. filing obligations, or computing tax without translating the basis and proceeds into dollars at the historical exchange rates.
6. **Failing to document the historical basis.** Being unable to document the property's original cost or capital-improvement expenses (particularly for privatized or inherited housing) results in the IRS computing capital-gains tax on the entire sale amount.

Nearly every one of these mistakes can be prevented if the structure of the deal is thought through before it begins.

VII. FREQUENTLY ASKED QUESTIONS

> *Answers to the questions clients ask most often — from the holding-period exemption to dual-citizenship status.*

Do I need to pay tax in the U.S. if Russia's holding-period exemption applies?

The Russian exemption from personal income tax does not relieve you of your obligations to the IRS — these are two independent systems, and the dollar-denominated capital gain, along with the applicability of Section 121, must be evaluated separately.

Can I just transfer the money directly from a Russian bank to an American one?

As things stand today, generally no — there is effectively no such direct channel. Realistic options include a transfer through a third-country bank, purchasing movable or digital assets followed by lawful export, or an offsetting arrangement with a counterparty who already has dollars in the U.S. and needs rubles in Russia; the specific route is chosen on a case-by-case basis.

What happens if I don't file an FBAR for an account opened only to receive the sale proceeds?

The filing obligation does not depend on whether any taxable income arose, and penalties start at $10,000 per year and can be higher for a willful violation.

I have a small balance in an account at a sanctioned Russian bank — is that a problem?

Potentially, yes — the U.S. sanctions regime has no de minimis threshold, and even a small balance at a bank under blocking sanctions can be treated as grounds for liability; this situation should be discussed with counsel in advance, not after the fact.

Does anything change if I'm a citizen of both Russia and the U.S.?

For the Russian side of the deal, you remain a citizen of the Russian Federation, but as far as the IRS is concerned, dual citizenship changes nothing: you must report the entire proceeds of the sale regardless of which passport you used in Russia.

Does the principal-residence exclusion (IRC Section 121) apply to a Russian apartment?

Yes, the exclusion applies to foreign real estate as well, provided the owner actually lived in it for at least 2 of the last 5 years before the sale. However, the IRS will require strict documentary proof of that residence — utility bills in the owner's name, residential-registration stamps, tax returns listing that address — and without them the exclusion may be denied.

VIII. TRANSACTION ROADMAP: FROM RISK ASSESSMENT TO CLOSING

> *A step-by-step roadmap to check against at every stage of the deal — from the preliminary risk assessment through the final closing of settlement and tax obligations.*

My website already publishes a step-by-step roadmap for structuring the sale of Russian-located real estate for an owner living in the U.S. Below I present it in an expanded form — with one key difference: a preliminary risk-assessment stage has been added before Step 1, which in my practice I always perform before even selecting a representative. The reason is simple: if you first choose a representative and prepare the power of attorney, and only afterward discover that the seller's bank is under blocking sanctions or that the documentation needed to support the property's basis was never preserved, a significant portion of the work already done may turn out to be wasted or need to be redone. The correct starting point, therefore, is not choosing a representative, but three parallel assessments.

Stage 0. Preliminary Risk Assessment (Before Step 1)

1. **Sanctions assessment.** Screening the seller's bank, the buyer's bank, and all anticipated intermediary links in the payment chain against the blocking sanctions lists of the U.S., the EU, and the UK; a preliminary assessment of the jurisdiction and the bank that will ultimately receive the funds in the U.S.
2. **Tax assessment.** Determining the seller's tax residency in Russia and in the U.S. at the time of the transaction; assessing the property's expected basis and the documentation available to support it — particularly for privatized or inherited property (see Section V.C); a preliminary computation of the tax consequences in both jurisdictions and the applicability of relevant benefits — the Russian holding-period exemption and Section 121 in the U.S.
3. **Banking assessment.** Confirming the availability of a Russian bank not under blocking sanctions to open the letter of credit; assessing whether the Type C account regime applies to the specific seller (Section IV.A); a preliminary choice of a realistic route for transferring the funds to the U.S., taking into account the current limits (Section IV.D).

Only once these three assessments produce an acceptable result does it make sense to move on to the civil-law portion of the transaction:

Steps 1–11

1. Choosing the representative and the realtor — including vetting them (Section VI.A).
2. Issuing the power of attorney to the representative — checked against the requirements of the specific Rosreestr territorial office (Section III).

3. Entering into the preliminary agreement — fixing the settlement structure and the future letter of credit.
4. Obtaining the mandatory consents — spousal consent, guardianship-authority approval, waiver of the right of first refusal.
5. Vetting the counterparty and deregistering any persons registered at the property.
6. Opening the letter of credit.
7. Entering into the principal purchase-and-sale agreement.
8. State registration of the transfer of title.
9. Disbursement of the letter of credit.
10. Transferring the funds to the U.S. — with the AML memorandum and advance notice to the bank (Section IV.B).
11. Tax formalities — paying tax in Russia, obtaining a certificate of no outstanding liability, and preparing the U.S. filing: Form 8833 and, where required, FBAR and Form 8938 (Section V).

This is a logical, but not the only possible, sequence — in individual transactions the order of Steps 4–6 may shift depending on the requirements of the specific bank, and Stage 0 is not a one-time exercise: the bank's sanctions status and the current limits should be re-checked again immediately before opening the letter of credit and transferring the funds, not only at the outset of the deal.

IX. MY SERVICES

Nearly every such transaction requires simultaneously coordinating Russian law, U.S. tax law, and banking compliance — and it is precisely at the intersection of these three areas that most costly mistakes arise. Over years of practice, I have regularly seen deals where the civil-law portion in Russia went smoothly, while the real problems began only after the agreement was signed — during the money transfer or while preparing the U.S. tax filing. I handle such transactions from start to finish: from preparing the power of attorney through filing Forms 8833, 1116, 8938, and the FBAR following the sale — combining under one practice what clients would otherwise have to piece together from three different specialists.

ABOUT THE AUTHOR

Viacheslav Kutuzov is an attorney and counselor-at-law licensed in the State of New York and the managing partner of the law firm Kutuzov & Associates, P.C. (New York, NY). His practice focuses on comprehensive legal and tax representation in cross-border transactions, including full-service representation in Russian real estate transactions for clients residing in the U.S.

In connection with representing clients in Russian real-estate transactions, Viacheslav Kutuzov provides:

- **Legal representation in Russia:** preparing specialized notarized powers of attorney (combining the statuses of New York attorney and notary public), reviewing purchase agreements and letter-of-credit structures, and monitoring the registration process at Rosreestr.
- **U.S. tax counsel and reporting:** analyzing the tax consequences under Subchapter N of the Internal Revenue Code, qualifying the cost basis, computing currency-translation gain and “phantom” profit, assessing the applicability of Section 121, and preparing and filing Forms 8833, 1116, and 8938, as well as the FBAR (FinCEN Form 114).
- **Compliance with the U.S. sanctions regime:** vetting counterparties, properties, banks, and transfer channels for compliance with OFAC, IEEPA, and export-control requirements, and developing AML memoranda for U.S. receiving banks.
- **Bank risk management and AML compliance:** analyzing the chain of custody of funds, minimizing the risk of blocked payments, and establishing the source of funds in accordance with Bank Secrecy Act standards.

Viacheslav Kutuzov holds an LL.M. in Taxation from New York Law School and a law degree from the Faculty of Law of the National Research University Higher School of Economics (HSE, Moscow). He is a licensed tax attorney, an IRS Enrolled Agent, a licensed Foreign Legal Consultant, and a New York State notary public. He is a member of the American Bar Association (ABA), the New York State Bar Association (NYSBA), and the New York City Bar Association (NYC Bar).

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