

# SETTING UP BUSINESS IN RUSSIA



## General Aspect

The Russian Federation stretches across Eurasia from Eastern Europe to the Pacific coast. It is the largest country in the world in terms of territory with 17 million km<sup>2</sup>. Russia is composed of eight federal districts under the administration of presidential envoys. The population of the Russian Federation is approximately 146 million. There are 15 cities with a population of over one million. Russian is the official language.

## Legal Forms of Business Entities

Legal form	Feature	Remarks
<b>Branches and representative offices</b>	According to the Russian Civil Code, both branches and representative offices are subdivisions of a foreign legal entity (FLE) that are located at a place other than the legal entity's head office. Branches and representative offices may be allocated assets by the legal entity that has created them and act on the basis of regulations approved by such legal entity.	The difference between a branch and a representative office lies in the nature of the activities they are entitled to perform.  A representative office can only represent the interests of a legal entity, and this normally limits its activities to those of a non-commercial nature, such as marketing or gathering of information. A branch, in contrast, can perform all or part of the commercial legal entity's functions, including (but not limited to) representation
<b>Direct Sales</b>	A foreign legal entity (FLE) that sells goods directly from abroad to customers located in the Customs Union (in particular, in Russia) would not be subject to Russian taxes and would not be required to establish a presence in Russia via any corporate structures.	Import duty rates are set in the Unified Customs Tariff (UCT) of the Customs Union of Russia, Belarus and Kazakhstan. Generally, these import duty rates vary from 5% to 20%.
<b>Corporations</b>	A foreign legal entity may set up a corporation under the Russian law in the following most suitable forms: partnerships, companies, economic associations.	

There are the following partnerships in Russian law:

<b>Full Partnerships</b>	A full partnership is <b>similar to the American general partnership</b> , in which the partners bear (full) joint and same liability for the partnership's obligations. A participant in a full partnership may not be a full partner in any other partnership.
<b>Limited Partnerships</b>	A limited partnership, which is <b>closer to the European Kommandit partnership</b> , has both full partners and partners whose liability is limited to their contributions. A full partner in a limited partnership may not be a full partner in another partnership, and their liability is the same as for full partners as described above.

There are the following companies in Russian law:

<b>Limited liability companies (LLCs)</b>	An LLC can be established by one or several persons. The charter capital is divided into participation interests. The liability of each participant in this type of company is limited to the value of their participation interest in the charter capital. The participants may conclude a participants' agreement to regulate how their rights are exercised. The number of participants in an LLC cannot exceed 50. The charter capital of an LLC determines the minimum size of the company's property, thereby guaranteeing the interests of its creditors. The minimum charter capital of an LLC should come to at least RUB 10,000.	An LLC's management structure is similar to that of a joint stock company. LLCs are considered to be non-public and, thus, may enjoy more flexible options in regards to organizing their management structure, relations between participants and other aspects of their activity.
<b>Joint stock companies (JSCs).</b>	A JSCs capital is divided into a set number of shares. The shareholders in a joint stock company are not liable for its obligations and accept the risk of losses resulting from corporate operations within the limit of their respective stakes. Shareholders may sign shareholders' agreements that regulate how their rights are exercised. Only joint stock companies may issue shares, which are deemed as securities and are subject to registration.	A joint stock company's ultimate management body is the general meeting (GM) of shareholders, which must convene at least once a year. The law differentiates between public and non-public joint stock companies.

Economic associations under the Russian law:

<b>Economic associations (EAs)</b>	An EA can be created by two or more persons (both individuals and legal entities can participate in an EA). EAs under the Russian law are generally regarded as legal entities and taxed accordingly.	Contractual agreements for joint activity do not create a legal entity and there are special rules governing their tax treatment. The maximum number of participants in an EA is 50, otherwise it must be reorganized into a JSC within a year.
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## Organizational Questions

Topic	Feature	Remarks
<b>Registration of business</b>	Russian companies, as well as branches and representative offices of FLEs, must be registered with several state authorities. Companies must be registered with the state registration authority (currently the tax authorities), which takes care of both the state and tax registrations, with the state statistics service, and with three social benefit funds (pension, social and obligatory medical insurance).	Branches and representative offices must be registered and accredited with the State Registration Chamber and registered with a designated tax inspectorate for foreign companies, as well as with the State Statistics Service and the three abovementioned funds.
<b>Bank Account</b>	In Russia FLEs have broad opportunities to open accounts in different currencies and with different payment limits. To open an account a FLE should provide its statutory documents as well as registration documents of its Russian subsidiary. General director can give an opportunity to approve payments to employees of the company. It simplifies the financial turnover of the company and makes it faster.	You can start the process of opening a bank account from abroad, but then a bank will require you to visit a branch / a notary and provide a signature sample to activate your account. You can open a bank account for a FLE in an international bank located in Russia or in one of the major national banks.
<b>Export to Russia/ Import into Russia</b>	For Import of goods for domestic consumption (for free circulation) it is necessary to provide a full payment of customs duties, VAT and other taxes before release of goods. Also legislation requirements (e.g. certification, licensing etc.) should be observed, as well as any current restrictions. For the certification with the technical regulations of the Customs Union usually a product sample and a technical description and documentation in Russian needs to be provided to an accredited certification center for testing.	<p>An import declaration should be submitted via the electronic signature either the importer or their customs representative. After that a registration with the customs office is required. The following custom payments need to be made:</p> <ul style="list-style-type: none"> <li>• Customs duties (determined by the customs code number and ranges from about 0% to 20%)</li> <li>• Excise taxes (levied on a range of imported goods including wine, beer, spirits, tobacco, oil, vehicles etc. as a fixed amount per unit in acc. with Tax Law)</li> <li>• VAT (calculated based on the total sum of the customs value of the goods and customs duties paid; the standard rate of VAT in Russia is 18%, in Belarus 20% and in Kazakhstan 12%)</li> <li>• Customs fee (handling fee of the customs authorities for each submitted customs declaration)</li> </ul>
<b>Visa</b>	Most foreigners need a visa to come in Russia, which grants permission to enter and leave the country while you have a business trip or you work in Russia. For obtaining business visa or work visa at the Russian consulate in your home country, you need to obtain a visa invitation issued by an authorized Russian company. If you have business meeting in Russia you should receive visa for business purpose. You can obtain visa for 1, 3, 6 or 12 months. If you work in Russia you should obtain multiple work visa for 1 or 3 years on the basis of work permit. While the latter enables you to work in Russia, a business visa does not allow you to be officially employed in this country. It is restricted to business trips only. It allows you to stay in the country for 90 days only within each 180-days period, e.g. if you have a one year business visa you can stay in Russia maximum 180 days.	

# Employment

Topic	Feature	Remarks
<b>Work permit</b>	<p>Unless you are a Belarusian, Armenian, Kirghiz or Kazakh citizen, you will need a work permit in order to work in Russia. There are generally two types of work permits available for citizens from foreign countries:</p> <p><b>1. Work permit for High Qualified Specialists (HQS).</b></p> <p>The law foresees that highly qualified specialists with a monthly gross income of over 167 000 Rubles who are employed at a Russian company, a representative office or a branch office in Russia of a foreign company are entitled to obtain a 3-year work permit.</p> <p><b>2. Work Permit for one year.</b></p> <p>A 1-year work permit can be applied for the foreigner if he wants to work at a representative office in Russia, in branch of foreign company or in a Russian company and his monthly gross salary is less than 167 000 Rubles. The process of obtaining this permit is more complex and time-consuming since it consists of several steps and usually takes up to 3,5 – 4 months. As quotas are issued for this type of work permit, with some exceptions, the employer is required to start the initial process up to one year in advance.</p>	<p>Company employment permits and individual work permits are generally issued for one year and for a specific</p> <p>Russian region. Work permits for foreign employees are issued through the employer by the Russian Ministry of Internal Affairs (MIA).</p> <p>With a HQS work permit for three years one qualifies for a 3 year working visa as well, that allows to stay in Russia without interruption.</p>
<b>Labour law</b>	<p>Relations between employers and employees are regulated by the Labour Code of the Russian Federation (the Labour Code). Salaries must be paid in Russian rubles at least once every two weeks and no later than 15 calendar days after the period for which the salary amount was accrued. Salaries should not be less than the minimum monthly salary as established by Russian law for each region. The standard work week in Russia is 40 hours over a five- or six-day period. All employees are entitled to at least 28 calendar days of annual paid leave. Employees usually may begin taking vacation time for the first year of their employment once they have worked at a company for six months consecutively. The exhaustive list of grounds for termination of the employment agreement is stipulated by the Labour Code.</p>	
<b>Social system</b>	<p>Social and health security covers, in particular, pension, unemployment, maternity and child benefits, as well as illness and other social services. Employees currently do not pay Russian social taxes; employers are obligated to make all relevant contributions. In 2018 employers must make the following contributions on behalf of employees: Pension Fund (22% up to RUB 1,021,000), Federal Obligatory Medical Insurance Fund (5.1% of employees' remuneration), Social Insurance Fund (2.9% within the cap of RUB 815,000) and accident insurance contributions (Rates between 0.2% - 8.5%)</p>	<p>All foreign employees (and their accompanying family members, in cases provided under Russian law) must have access to emergency medical aid in Russia, either through an insurance policy or through an agreement for provision of medical services concluded by an employer with a health-care institution.</p> <p>The employers of HQS must make the accident insurance contributions only.</p>

# Taxation

Taxes and levies are imposed in Russia at all levels: Federal, regional and local. Federal taxes and levies are those established by the Tax Code and by Federal Law, and are paid throughout the Russian Federation. Regional taxes and levies are those established by the Tax Code and by specific regional tax laws effective in the regions of the Russian Federation and only paid in those specific regions. Regional taxes include property tax, gambling tax and transport tax. Local taxes and levies are those introduced by the Tax Code and by the regulations of municipal authorities, and which are paid only in that particular municipal area. Local taxes consist of land tax, personal property tax and trade tax.

Tax	Feature	Remarks
<b>Social Contributions</b>	<p>The following social contributions are applicable:</p> <ul style="list-style-type: none"> <li>• 30% – 15.1% (0% for temporarily staying HQS)</li> <li>• 22% pension fund (up to 1,021,000 RUB in 2018, then 10% until the end of the year)</li> <li>• 2.9% social security fund (up to 815,000 RUB in 2018, then 0% until the end of the year)</li> <li>• 1.8% social security fund (up to 815,000 RUB in 2018, then 0% until the end of the year, for temporarily staying foreign employees excluding HQS)</li> <li>• 5.1% fund of medical insurance (no limits are foreseen)</li> </ul>	
<b>Profit tax</b>	<p>Taxable profit is calculated as income minus the expenses recorded in the tax accounts. Income is generally determined on an accrual basis. Application of a cash basis is allowed only if average sales proceeds for four consecutive quarters are less than RUB 1,000,000, excluding VAT per quarter (USD 17,869).</p>	<p>The maximum profits tax rate is 20%, including 3% (till 2020) paid to the Federal budget and 17% (till 2020) to the regional budget. A reduction up to 15.5% is possible in special economic zones and certain regions.</p>
<b>Personal Income Tax</b>	<p>Individuals are taxed according to their status as follows: tax residents and foreign highly-qualified specialists are taxed on their worldwide income (13%), while tax non-residents are taxed only on their Russian-sourced income (30%), irrespective of the nature of the income received.</p>	<p>A special beneficial regime that applies to highly qualified foreign employees.</p>
<b>Transfer Pricing (TP)</b>	<p>A transfer price is a price subject to monitoring by the tax authorities. The Russian tax authorities can monitor prices to ensure that they reflect market realities and have not been fixed to reduce the tax burden in Russia. Current Russian TP legislation is essentially based on Organization for Economic Cooperation and Development (OECD) principles, with certain important deviations. This legislation establishes criteria for related parties and controlled transactions, transfer pricing methods for determining arm’s-length prices/profitability, a list of permitted information sources, and compliance requirements. There are 11 categories of related parties. Holding a stake of more than 25 percent in a company is one of the main related party criteria, although the parties can be recognized as related by court on grounds other than those mentioned in the law, while taxpayers can likewise claim to be affiliated on other grounds.</p>	

<b>Dividends Tax (Withholding Tax)</b>	The Dividends Tax Rate applies for payments abroad up to 15%. It may be reduced to 5% depending on the double taxation agreement.	
<b>Value Added Tax (VAT)</b>	Standard VAT rate is 18%. Reduced VAT is applicable for sale of basic foodstuff, such as sale of certain kinds of products for children, medical supplies and medicine and periodicals (excluding advertisement and erotic), scientific literature and text books, by an amount of 10%. Furthermore VAT applies to export of goods, sales to diplomatic missions and their personnel, sales of goods (works, services) in the field of aerospace, Transportation of passengers and baggage where either the point of departure or destination is outside Russia, services for transportation of goods in connection with export and import, and other cases, which mainly are auxiliary to transportation services.	The VAT reporting period is the calendar quarter. A VAT return should be submitted and the tax should generally be paid in three equal installments by the 25th day of each of the three consecutive months following the reporting quarter.
<b>Property Tax</b>	Property tax is a regional tax and therefore its application is governed by regional regulations as well as the Tax Code. Subject to property taxes are Russian entities, Foreign entities (that act through permanent establishments in Russia or own immovable property in Russia) and Separate subdivisions of Russian legal entities (that have their own balance sheets). Property tax is levied on both movable and immovable property. The maximum tax rate for property on which the tax base is calculated based on its residual value according to the Tax Code is 2.2 percent. Concerning the cadastral value, the rate is 1-2%.	



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