

# 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 have assets allocated to them 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. The activities of the branch should correspond to the activities of the FLE.
<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 Eurasian Customs Union (EACU) of Russia, Belarus, Kazakhstan, Armenia and Kyrgyzstan. Generally, these import duty rates vary from 0% to 20%.
<b>Corporations</b>	A foreign legal entity may set up a corporation under the Russian law in the following most suitable forms: full or limited partnerships, limited liability company (LLC), joint stock company (JSC).	Russian law also provides for management liability, including civil, administrative and criminal liability. The bankruptcy law contains additional requirements extending the liability of the management and/or of the shareholders of the company in case of the bankruptcy (insolvency) of the Russian subsidiary.

# Sanctions

Foreign investors should be aware that a number of Russian companies and executives are included in various sanction lists in EU, USA, Ukraine, etc. The sanctions include not only companies, but also measures targeting sectoral cooperation and exchanges with Russia. E.g. EU nationals and companies may no longer buy or sell new bonds, equity or similar financial instruments with a maturity exceeding 30 days, issued by a number of major state-owned Russian banks, energy companies, defense companies, subsidiaries outside the EU of the entities above. The sanction check of Russian counterparties is recommended in order to comply with the sanctions' requirements.

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>	<ul style="list-style-type: none"> <li>• the most common legal form in Russian business</li> <li>• can be established by one or several persons, number of participants cannot exceed 50</li> <li>• the charter capital divided into shares ("participatory interests"); the charter capital determines the minimum size of the company's property, thereby guaranteeing the interests of its creditors; minimum charter capital should come to at least RUB 10,000</li> <li>• a separate legal entity, can have rights and obligations; obtains its legal capacity only after state registration (a "pre-LLC" does not exist in Russia as compared with Germany, for example)</li> <li>• participants may conclude a participants' agreement to regulate how their rights are exercised</li> <li>• liability affects all assets of the LLC; the participants are liable for the debts of the LLC within the amount of the equity contribution and only if they have not paid their contribution in full the liability of the participant can be extended</li> <li>• in some cases a parent company may become liable as a result of the lifting of the corporate veil</li> <li>• LLC is subject to foreign exchange control (in business relations with foreign companies)</li> </ul>	<p>LLCs are considered to be non-public and, thus, may enjoy more flexible options with regard to organizing their management structure, relations between the participants and other aspects of their activity.</p> <p>An LLC's ultimate management body is the general meeting (GM) of participants (or a sole participant), which must convene at least once a year. The GM is obliged to appoint one or more executive officers (Director, President, etc.) and may have collective executive body and supervisory board.</p>
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### **Joint stock companies (JSCs).**

- capital is divided into a set number of shares
- only joint stock companies may issue shares, which are deemed as securities and are subject to registration
- two legal forms of JSCs: public (shares and convertible bonds are publicly placed or publicly traded) and non-public (shares and convertible bonds may not be publicly issued or otherwise offered for sale to an unlimited group of persons)
- JSC is liable with its assets; shareholders are liable for commitments of the joint stock company only within the amount of their shares. In rare cases, e.g., if the parent company issues binding instructions to the subsidiary, the corporate veil may be lifted.
- shareholders may sign shareholders' agreement that regulates how their rights are exercised
- JSC is subject to foreign exchange control (in business relations with foreign companies)

An JSC's management structure is similar to that of an LLC. The law differentiates between public and non-public joint stock companies.

The register of shareholders of JSC's should be transferred to a professional registrar with a special license.



## 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 social benefit funds (pension, social insurance).	Branches and representative offices must be registered and accredited with the designated state registration authority for foreign companies (Tax inspectorate # 47 in Moscow), as well as with the State Statistics Service and the two 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 by 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 Code)</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 20%)</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. Work visa invitation is issued by the Russian Ministry of Internal Affairs (MIA). Depending on the citizenship of a foreign employee a business visa invitation is issued by an authorized Russian company or by MIA. 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 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> <p>HQS must be provided with the additional (voluntary) medical insurance in order to obtain the relevant HQS work permit.</p> <p>As of February 3, 2021 issuance of visa invitation within the pandemic and closed borders should be preliminarily approved by the Federal Ministry responsible for the appropriate business. To have this approval in place there is a need to make special application (subject to consideration by the Ministry within 30 calendar days).</p>
<b>Labour law</b>	<p>Relations between employers and employees are regulated by the Labour Code of the Russian Federation (the Labour Code). Employment relations must be formalized by the written employment agreement and HR documents (e.g., hiring order). 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 must be not less than the minimum monthly salary as established by Russian law on a federal level or for the relevant region (if the latter is higher than the federal figure). 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. Some employees may have additional grounds for dismissal stipulated by the individual employment agreement (e.g., CEO).</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 2020 employers must make the following contributions on behalf of employees: Pension Fund (22% up to RUB 1,292,000), Federal Obligatory Medical Insurance Fund (5.1% of employees' remuneration), Social Insurance Fund (2.9% within the cap of RUB 912,000) 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 healthcare 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 levy.

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 1,465,000 RUB in 2021, then 10% until the end of the year)</li> <li>• 2.9% social security fund (up to 966,000 RUB in 2021, then 0% until the end of the year)</li> <li>• 1.8% social security fund (up to 966,000 RUB in 2021, then 0% until the end of the year, for temporarily staying foreign employees excluding HQS)</li> <li>• 2.1% 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 (EUR 10,920*).</p>	<p>The maximum profits tax rate is 20%, including 3% (till 2024) paid to the Federal budget and 17% (till 2024) to the regional budget. A reduction up to 13.5% 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 HQS 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 is applied to highly qualified foreign employees (HQS).</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, TP methods for determining arm's-length prices/profitability, a list of permitted information sources, and compliance requirements. Holding a stake of more than 25% 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>	

\* Exchange rate of the Central Bank of Russia as of February 3, 2021.

<b>Withholding Tax on Dividends, Loan interest, Royalties</b>	<p>The Withholding Tax (WHT) rate applies for payments of dividends, interest and royalties abroad up to 15%. It may be reduced to 5% depending on the double taxation treaty (DTT).</p> <p>Starting from 2021, the Multilateral Convention of 24.11.2016 on the implementation of measures related to tax treaties in order to counter the erosion of the tax base and the withdrawal of profits from taxation (BEPS) (in international practice – “MLI”) is applied in Russia. This caused amendments in DTTs with 34 countries.</p>	<p>Since 2021 DTTs with these 34 countries should be applied considering MLI provisions.</p> <p>Moreover, beneficial 5% WHT rate on most payments to such countries as Cyprus, Malta is revoked and will be 15%.</p> <p>Application of reduced WHT rate is subject to confirmation of beneficial ownership of income (to be received from income recipient prior to payment).</p>
<b>Value Added Tax (VAT)</b>	<p>Standard VAT rate is 20%. 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.</p>	<p>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.</p>
<b>Value Added Tax (VAT) on electronic services</b>	<p>Starting from 2019 all foreign companies, who render electronic services to Russian legal entities are obliged to register for VAT purposes and pay the VAT to Russian budget. VAT rate is 16,67%. The list of electronic services includes: granting the rights to use computer programs (including computer games); granting the rights to use databases via the Internet; provision of advertising services and space on the Internet; provision of domain names, provision of hosting and other services.</p>	<p>This obligation with regard to foreign companies, who render electronic services to Russian individuals came into effect in 2017.</p>
<b>Property Tax</b>	<p>Property tax is a regional tax and therefore its application is governed by regional regulations as well as the Tax Code. 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) are subject to property tax. Property tax is levied on 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%. The maximum tax rate for property on which the tax base is calculated based on its cadastral value according to the Tax Code is 2%. Tax rate may be reduced on the basis of investment contract with the regional government bodies.</p>	





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