

# Starting up in Russia

Your legal status affects the deals you make and their tax consequences. Your financial and tax accounting and reporting depend on it, as do handling of customs, currency control, employment of foreign nationals, repatriation of income and application of international treaties. Thorough research is essential and we are your first point of contact. A business run by a foreign investor in Russia may take one of five forms:

- A limited liability company
- A joint-stock company (public or private)
- A partnership
- A representative office
- A branch of the foreign company

For more information, read on.

In order to legally register a company, there are requirements:

## Physical office space

You must secure space in order to register a company. A legal address is not sufficient. It may be residential (a flat) if the company general director and individual shareholder owns the premises and on condition that no production, warehousing or commercial activity takes place within it. Be prepared for a visit from the authorities.

### *General Director*

In order to conduct activities legally, a foreign candidate must obtain a work permit. He / she should file for one immediately after company registration.

### *Accountant*

Submission of accounting and tax reports is mandatory, regardless of inactivity and zero income. This role must be assigned.

In the table below you will find descriptions of the various legal structures you may consider for your startup in Russia.

Russian legal entity		Subdivision of a foreign company	
Limited liability company (LLC)	Private joint stock company (PJSC)	Representative office (RO)	Branch
<b>Legal Status</b>			
<p>LLC and PJSC are legal entities and may conduct any form of commercial activity, provided it is not prohibited by Russian legislation. A license is required in order to conduct said activity.</p>		<p>RO and Branch of a foreign legal entity are not considered separate legal entities. They are subdivisions of a foreign company. They are considered as Russian non-resident entities for currency control purposes</p>	
<p>The maximum number of shareholders/participants permitted in PJSC/LLC is 50. Any Russian and foreign companies and persons may be founders and shareholder in any number of Russian companies. A single founder may establish the company, as long as founder is not a company owned by a single legal entity or individual. Peculiarities exist for companies with a single founder. Please see section on Sole Ownership for more details.</p>		<p>RO is a subdivision of a foreign legal entity that represents the company's interests in Russia. Officially it is not permitted to undertake commercial activity, in Russia.</p>	<p>Branch is a subdivision of a foreign legal entity that may engage in commercial activity.</p>
<b>Registration and Accreditation</b>			
<p>Registration is carried out by the Tax authorities, which maintain the United State Register.</p> <p>The company shall also be registered with the State Committee for Statistics and three non-budgetary funds (Pension, Obligatory Medical Insurance and Social</p>		<p>Tax authorities accredit ROs and Branches, which must also be registered with the State Committee for Statistics and three non-budgetary funds (Pension, Obligatory Medical Insurance and Social Security). Please see also Registration process and list of documents.</p>	

Security). * Please see Registration process and list of documents.			
<b>Registration and Accreditation duties and charges</b>			
<p>Registration duty costs 4000 rubles (~50 euro).</p> <p>Extra charges for registration of company's seal, registration at State Committee for Statistics usually amount to no more than ~80 euro.</p>		<p>Accreditation costs 120.000 roubles, (~1500 euro)</p>	<p>Accreditation costs 120.000 roubles, (~1500 euro)</p>
<b>Authorised capital</b>			
Minimum authorised capital for LLC and PJSC is 10,000 rubles (~120 euro)		There is no requirement for authorised capital.	Federal law requires that assets be formed but no amount is stipulated.
<p>Authorised capital must be paid in full within 4 months of company registration.</p>	<p>Authorised capital must be paid in full within 4 months of company registration.</p>		
<b>Management structure</b>			
<p>LLC and PJSC may have a three-tier management structure consisting of (1) general meeting, (2) board of directors, and (3) executive body.</p> <p>General meeting is the highest management body and must meet at least once a year.</p> <p>Board of Directors influences general supervision of business activities not referred to the competence of the General meeting</p>		<p>An executive body (Head of RO or Branch) should be appointed by the foreign legal entity for both RO and Branch and acts pursuant to POA issued by the foreign legal entity.</p>	

<p>Both an individual and collegial body may represent executive body of a company. The executive body acts pursuant to the Charter document and does not requires POA.</p>		
<p><b>Shares/Units</b></p>		
<p>Authorised capital is divided into shares/units that represent rights and obligations of a shareholder/participant in accordance with their participation in the authorised capital.</p>		
<p>A unit is not a security.</p>	<p>A share is a security.</p>	<p>N/A</p>
<p>Units can be sold to anyone but right of priority for the unit purchase can be stipulated.</p>	<p>Public subscription is prohibited for PJSC.</p> <p>Shares allotment shall be registered with relevant state body.</p>	
<p><b>Accounting and Tax Compliance</b></p>		
<p>Accounting and tax reports must be filed by company with tax authorities on a quarterly basis and VAT Reports every month. For more information please see Reporting compliance table.</p>		<p>The distinction between a Branch (or taxable RO) and Russian legal entity in terms of tax compliance is negligible. RO that carry out auxiliary and marketing activity should also submit reports on their activities and possible income and all reports related to payroll and social taxes. This is generally carried out every quarter except for VAT (monthly) to special Tax inspectorate, which deals only with ROs and Branches. For more information please see Reporting compliance table.</p>

<b>Foreign Staff</b>	
Companies are permitted to employ foreign nationals providing they have work permits. For more information please go to section on work permits.	Companies are permitted to employ foreign nationals providing they have work permits. For more information please go to section on work permits.

## Sole ownership

So to recap: a Limited Liability or Private Joint Stock Company may be founded by an individual (Russian or foreign) or by a legal entity and the founding document is a Charter. There is no Board of Directors or General meeting of the founders, as the founder is solely responsible for decision-making and manages the company by issue of written decisions or ones made by issuance of orders in the case that he / she is General Director.

Note that as a separate entity, the company's assets remain legally isolated from those of the founder.

### *Registering a Limited Liability Company*

Stages	Term
Registration with Tax Authority	7 working days
Registration with State Committee for Statistics	2 working days
Producing the Company seal	1 working day
Registration with state non-budgetary funds (Pension, Social Security, Medical Insurance)	
Opening of bank account	Depends on bank

*List of documents required from a non-resident company shareholder:*

1. Certificate of Incorporation or Extract from Trade Register from the country of origin or other proof of legal status that complies with legislation in the incorporation's country. This document is valid for 12 months. (1 copy)
2. Memorandum and Articles of Association. (1 copy)
3. Document certifying the powers of an individual to sign corporate documents for LLC registration on the shareholder's behalf should the signatory not be specified in the Certificate of Incorporation or Extract from Trade Register.
4. Passport copy of above individual.

Documents must be notarised and apostilled (or legalised at a Russian Consulate in country of incorporation), translations into Russian also require notarisation.

*List of documents needed from a foreign individual-shareholder:*

1. Passport
2. Russian visa (where applicable)

*Accreditation of a Branch office.*

Stages	Term
Accreditation with Tax authority	30 working days
Registration with State Committee for Statistics	2 working days
Producing the Company seal	1 working day
Registration with state non-budgetary funds	
Opening of bank account	Depends on bank
Registration with Chamber of Trade and Commerce	5 working days

List of documents required from a foreign legal entity:

1. Memorandum and Articles of Association of a foreign legal entity (charter, bylaw).
2. Certificate of Incorporation of a foreign legal entity or Extract from Trade Register.
3. Letter of introduction from a bank that serves the foreign legal entity in the country of incorporation, proving solvency.
4. Resolution of a foreign legal entity to open the Representative of Branch Office and to appoint a Head.
5. Power of Attorney granted to Head of Representative of Branch Office.
6. Certificate of registration with Tax Authorities with Tax Code of the foreign company (or equivalent in country of establishment).

Documents must be notarised and apostilled (or legalised at a Russian Consulate in country of incorporation), translations into Russian also require notarisation.

## *Overview of the Russian Tax System*

Russian taxes on typical corporations may be grouped as follows:

### **1. Corporate Income tax – 20%**

The level of Corporate Income tax withheld on a foreign legal entity's passive sources of income (interest, dividend, rent, royalty and likewise) – 13% to 20%

Tax withheld on dividends paid to Russian legal entities – 13 % and for foreign legal entities – 15%

For more details please see section Corporate Income Tax and Withholding Tax and Tax Agent Obligations.

### **2. Indirect taxes**

Value-added tax (VAT) – 10% on socially important goods and 18% on most other goods and services.

For more details please see section on VAT.

### **3. Payroll Taxes**

These are only paid by employers and made up of contributions from cumulated gross annual income of Russian and foreign national citizens (bar those working in Russia for less than 6 months or holding a Highly Qualified Specialist work permit):

- Pension Fund of the Russian Federation – 22% on gross cumulative income up to 711 000 roubles per annum and 10% on gross income in excess of 711 000 roubles
- Medical Fund of the Russian Federation – 5.1%
- Social insurance Fund – 2.9% on gross cumulative income up to 670 000 roubles and zero on exceeding income
- Insurance against accidents and deaths in the workplace – from 0.2% to 8.5% (depending on industry)

The total amount payable by agricultural and small enterprises engaged in production and socially salient areas of business varies from 14% to 26%.

#### **4. Property Taxes**

All property taxes are established by regional authorities but must adhere to the following limits set by the Tax Code:

- Property tax on fixed assets – 2.2%
- Transport tax on owned vehicles, vessels and aircraft depends on engine capacity and is calculated by horse power or similar measure
- Land tax rate on owned plots of land varies from 0.3% to 1.5% of the land book value. It depends on type and may vary from the abovementioned but cannot be more than 0.3% – 1.5% for relevant type.

Individuals are liable for:

Personal income tax: 13% for tax residents and 30% for non-residents, 35% on interest and similar income, 13% to 15% on dividend income

Property tax on fixed property – 0.1% – 2.0%

Land tax – comparable to corporations

Transport tax – comparable to corporations

#### **5. Further taxes and duties are applied on specific products, activities and procedures by notaries and government authorities:**

- Excises
- Extraction of Mineral Resources
- Customs

- Water
- Use of Flora and Fauna
- Stamp duty

In addition there are special tax systems for small, agricultural companies and agreements on sharing product used to extract mineral resources.

Under these systems, a unified tax, usually between 6% and 15% (or a fixed contribution) is paid. Certain conditions must be met in order to qualify.

## Corporate Taxation

Corporate Income Tax is the main levy on business income (*nalog na pribyl' organizatsii*, CIT). Dividend distributions are taxed via 'withholding'. Legal entities registered under Russian law are liable on worldwide income. Foreign legal entities are only liable for income generated on activities of a permanent branch in Russia and on certain specific Russian-sourced revenue. Gross income includes all types of income.

In the absence of special exemption, all income comprised of the following is taxable:

- Profit from sale of goods and services calculated as the difference between sales revenues, excluding VAT, and related expenses both direct and indirect
- Non-cash payment received in return for supply of goods or services; or from property rights accountable on the basis of their fair market price in agreement with transfer pricing regulations set by the Tax Code.
- Profit from non-sales transactions including lease payments, dividends from other companies, bond interest, royalties, compensation received for losses, minus any non-sale expenses.

Since 2002 the accrual method generally applies.

All expenses documented and economically justified are deductible unless specifically disallowed by the Tax Code. If the relevant international treaty on double tax avoidance (DTT) permits, branch offices of foreign legal entities may deduct related expenses incurred by their Headquarters.

## *Withholding Tax and Tax Agent Obligations*

A resident company that pays dividends (to any company) and interest, royalties and likewise (to a foreign company not present in Russia), is obliged to withhold tax at source. DTT's tend to set lower rates.

Tax-withholding agents report withheld tax together with Corporate Income tax.

## *Simplified Tax System*

On January 1, 2003, article 26.2 of the Tax Code on simplified taxation system was enforced. The regime allows certain companies to choose to pay reduced tax on income and applies to some other federal, regional and local taxes, among them VAT and property tax. Contributions to social security VAT on imported goods and state duties remain obligatory.

Income is defined differently for the purposes of the simplified regime. Unlike income for corporate income tax (CIT) purposes, it contains a closed list of deductible expenses: rent, salary, interests, business trips, advertisement (within boundaries set for CIT), development of manufacturing processes, VAT and other taxes and duties. Cost of purchased fixed assets is no longer liable from the moment the equipment is exploited. Moreover, revenue, income and expenses are considered on cash instead of the accrual basis for CIT.

Enterprises that choose income-based tax are required to pay a minimal 1% of company revenue. The difference between minimal tax and that, which is calculated at a rate of 15% can be written-off as a loss and contribute to the total loss of a company. Losses earned while a company was using the simplified tax regime, can be carried forward for up to ten years but they cannot decrease a taxable income by more than 30% during each of the subsequent years.

This simplified system used to be a popular structure for holding assets as companies observing it do not pay property tax and while it remains, it is now severely restricted. Since January 1, 2003, companies with fixed and intangible assets totalling more than 100 million roubles (\$1.7m) are not eligible for simplified taxation.

The following categories of company do not qualify:

- Companies with branches or representative offices
- Banks, insurance companies, pension funds, investment firms, stockbrokers, pawnshops

- Producers of goods liable for excise
- Companies involved in gambling business
- Companies participating in share production agreements

The simplified tax system is not available to companies under the following circumstances:

- Direct participation in the company's share capital of another legal entity is equal to or greater than 25%
- Employee number exceeds 100
- Aggregate gross annual earnings exceed 60 million roubles (\$0.8m)

An ordinary system of taxation comes into place as soon as a company exceeds abovementioned earnings.

## VAT

Revenue generated from the supply of goods, works and services on the territory of the Russian Federation is generally subject to VAT unless specifically exempted by the Tax Code. In Russia the destination principle applies:

- Products or services consumed / utilised in Russia are subject to VAT
- Exported goods / services used outside of Russia are exempt
- Imports / services utilised in Russia are subject to VAT

The taxpayer may apply for exemption from VAT; on condition that turnover for the preceding three months did not exceed 1 million roubles.

VAT payable is equal to the difference between that due on supply of goods, works or services and the amount of input tax incurred. Deductible input VAT is payable to other taxpayers in accordance with invoices for goods, works services really received and in relation to the taxpayers transactions, including ones liable to VAT at zero rate.

The size of the deduction takes into account VAT paid on imported goods and on capital assets at the date of asset capitalisation. The rules of VAT offset and refund are complicated, thorough financial planning and contract structuring is essential.

VAT deduction is not applicable to transactions exempted neither from VAT nor for ones performed by a VAT non-taxable individual. VAT paid in these cases is classed as a business expense.

Deductible input tax that exceeds the amount of VAT due on output may be offset against other liabilities over a consecutive period of three years. When this comes to an end the excess may be refunded at the taxpayer's request. Application must be processed within two weeks of submitting necessary documents and the same time limit applies to subsequent payment of refund.

Tax on imports is calculated in the same way as customs duties and should be increased according to said fees and excise tax payable. In the absence of a customs border, the tax is determined on the sum of purchase price of goods plus excise taxes due.

Export of goods and certain services from Russian customs territory is zero-rated owing to the destination principle, irrespective of destination. The principle extends to re-exported goods and ones exported following completion of services pursuant to a contract under which formerly imported goods were developed.

Zero-rating of exports is subject to submission of relevant documents to tax authorities. VAT is settled monthly and reported quarterly.

### *Individual Taxation*

Regardless of citizenship, individuals are obliged to pay Russian individual income tax on:

- Worldwide income if a Russian tax resident (anyone who spends 183 days in Russia or more during a calendar year)
- Income generated via work or property in Russia and investment for tax non-residents (spends less than 183 days in Russia in a calendar year)

13% is applied to most incomes of Russia tax residents bar the following:

- Interest generated above the permitted 9% for foreign and 13% for Russian currencies – 35%
- Material gain on low or interest free loans (levels similar to abovementioned) and arising from receipt of benefits in-kind at a rate below market or free – 35%

Unless stated otherwise in relevant double tax treaty, non-residents are required to pay 30% tax on all income.

Acquisition and sale of real estate and other property gives Russian tax residents exemptions from individual income tax. Professional deductions are granted in relation to creation of intellectual property or provision of non-employee services.

Personal income tax is withheld at source or paid by the individual upon submitted declaration should this not be possible. Declarations should refer to the previous tax year ending December 31 and submitted by April 30.

There is no family taxation.

## Work Permits and Visas

Foreign nationals require a work permit and work visa in order to work in Russia. A sponsoring entity (employer) applies for both on his / her behalf. Citizens of countries with which Russia has a non-visa regime apply for a patent instead. None of the above is needed for foreign nationals from Custom Union countries: Armenia, Belarus, Kazakhstan and Kirgizia.

The following are also exempt from work permit restrictions:

1. Russian temporary and permanent residents
2. Members of the government programme that helps former citizens living abroad to relocate back to Russia
3. Employees of diplomatic missions and international organisations together with their domestic staff
4. Accredited journalists
5. Students working during holidays / spare time at their educational institution
6. Bands, singers and other performers
7. People employed by overseas entities to carry out warranty or post-warranty maintenance or installation services tied to equipment imported to Russia are issued technical assistance visas
8. Instructors, teachers, lecturers on invitations from Russian academic institutions (bar religious institutions)
9. Refugees and displaced persons in possession of required documentation to prove status
10. Foreign nationals granted asylum status

11. Citizens of Armenia, Belarus, Kazakhstan and Kirgizstan

Two types of work permit currently exist:

Standard Work Permit and a Highly Qualified Specialist Work Permit

In the table below is a comparative description of the two.

HQS	Standard
<b>Eligibility</b>	
Russian legal entities, Branches and Representative Offices of foreign companies  Employer should be free from administrative penalties for 2 years prior to employment of HQS	Russian legal entities, Branches and Representative Offices of foreign companies
<b>Requirements</b>	
Employer has to pay a minimum monthly salary of 167 000 roubles excluding allowances and benefits to qualify for a HQS work permit	Higher Education Diploma
<b>Validity term</b>	
Work permit and work visa are issued for 3 years	Work permit and work visa are issued for 1 year
<b>Processing time</b>	
4 weeks	4 months
<b>Quota</b>	

N/A	Quota is applicable except for non-quota positions listed
<b>Medical tests</b>	
No medical tests required	Medical tests required
<b>Reporting requirements</b>	
Employers must notify immigration authorities of salary and tax withholding information on a quarterly basis	None applicable for employer
<b>Notification of place of stay</b>	
Foreign employees should register within 90 days of arrival and have 30 days to register when travelling to other Russian regions	Foreign employees should register within 7 days of arrival and have 7 days to register when travelling to other Russian regions

<b>Exams in Russian language, history, basic knowledge of Russian legislation</b>	
N/A	Foreign employees should pass exams in Russian language, history and basic knowledge of Russian legislation