

Doing Business in Russia





Preface

This guide has been prepared by Baker Tilly Russia, an independent member of Baker Tilly International. It is designed to provide information on a number of subjects important to those considering investing or doing business in Russia.

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Doing Business in Russia has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this guide may not be comprehensive and recipients should not act upon it without seeking professional advice. Facts and figures as presented are correct at the time of writing.

Up-to-date advice and general assistance on Russian matters can be obtained from Baker Tilly Russia, contact details can be found at the end of this guide.

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1 Fact Sheet

Facts and figures as presented in sections 1 through 4 are correct as at 1 September 2016.

Geography

Location:	Northeast Europe and northern Asia
Area:	17,098,242km ²
Land boundaries:	Azerbaijan, Belarus, China, Estonia, Finland, Georgia, Kazakhstan, North Korea, Latvia, Lithuania, Mongolia, Norway, Poland, and Ukraine
Coastline:	Arctic Ocean and the North Pacific Ocean
Climate:	Steppes in the south, humid continental in much of European Russia, subarctic in Siberia, tundra climate in the polar north
Terrain:	Broad plain with low hills west of Urals, vast coniferous forest and tundra in Siberia, uplands and mountains along the southern border regions
Time zone:	GMT +4 in Moscow. There are nine time zones in Russia ranging from GMT +3 in the west to GMT +12 in the extreme northeast

People

Population:	146.54 million (January 2016 estimate)
Religion:	Russian Orthodox 68%, Islam 7%, Catholic 1%, Protestant 1%, other 4%, non-believer 19% (2013)
Language:	Russian

Government

Country name:	Russian Federation
Government type:	Federation
Capital:	Moscow
Administrative divisions:	46 provinces, 21 republics, 4 autonomous regions, 9 administrative territories, 2 federal cities and 1 autonomous province

Political situation

The bicameral Federal Assembly consists of the Federation Council (upper house) with 166 seats, and the State Duma (lower house) with 450 seats. The Head of State is the President, who is elected by popular vote. The Head of Government is the Premier, who is appointed by the President and approved by the State Duma. The cabinet comprises of the Premier, deputy premiers, and ministers, who are appointed by the President.

Economy

GDP – per capita:	US\$9,057 (2015)
GDP – real growth rate:	-3.7% (2015)
Labour force:	76.75 million (2014)
Unemployment:	5.3% (July 2016)
Currency (code):	Russian Ruble (RUB)

2 Business Entities and Accounting

2.1 Companies

The main company types in Russia are the joint stock company (open or closed) and the limited liability company. Other business forms include partnerships, branches, and individual entrepreneurs.

2.1.1 Joint stock companies

A joint stock company may be open or closed and may be formed by at least one individual or legal entity through the company's charter. A company consisting of one person may not generally be the sole founder of a joint stock company. The liability of shareholders is limited to their capital contribution. Shareholders who have not fully paid up their shares are jointly and severally liable for the obligations of the company with the unpaid portion of the value of their shares.

The minimum share capital requirement for an open joint stock company is generally RUB100,000. For closed joint stock companies, the minimum share capital requirement is generally RUB10,000. Open joint stock companies may offer shares to the public; closed joint stock companies may not.

Joint stock companies are administered by the annual general meeting, a board of directors (supervisory board), and a sole executive alone, or a sole executive with an executive body. Members of the board of directors must be individuals. Joint stock companies are also required to appoint an internal audit committee/internal auditor or an independent external auditor (in the last case only for open joint stock companies).

2.1.2 Limited liability companies

A limited liability company may be formed by one or more individuals or legal entities through the company's charter. Business entities consisting of one person may not generally be the sole founder of a limited liability company. The maximum number of members is 50. The liability of members is limited to value of their shares in the authorised capital. Members who have not fully paid up their shares are jointly liable for the obligations of the company with the unpaid portion of the value of their shares.

The minimum share capital requirement for a limited liability company is RUB10,000.

Limited liability companies are administered by the annual general meeting, a board of directors (supervisory board) which is optional, and by a sole executive alone, or by a sole executive with an executive body. An internal audit committee or internal auditor must also be appointed if there are more than 15 members. These functions can also be performed by an independent external auditor (if allowed by the articles of association).

2.1.3 Licensing, registration and taxation

Business activities in certain areas require a licence.

Companies must apply for state registration, which is generally complete within five working days of submission of the relevant documentation. Companies become separate legal entities upon registration.

Companies are taxed at the corporate level and are subject to corporate income tax.

2.2 Partnerships

A general partnership exists where two or more partners engage in business activities in accordance with the memorandum of association. There is no minimum share capital requirement. Partners have unlimited liability for the debts/liabilities of the partnership, jointly and severally. Profits and losses are divided between the partners in proportion to their capital contribution, unless the partners agree otherwise.

A limited partnership may be formed by two or more partners, and is governed by the memorandum of association. There is no minimum capital requirement. There must be at least one general partner and at least one limited partner. The maximum number of limited partners is 20. General partners have unlimited liability for the debts/liabilities of the partnership. Limited partners are liable to the extent of their capital contribution. Limited partners are not permitted to take part in the management of the partnership. Limited partners are entitled to receive profits in relation to their share of the share capital as prescribed by the memorandum of association.

Business activities in certain areas require a licence. General partnerships and limited partnerships must apply for state registration, which is generally complete within five working days of submission of the relevant documentation. General partnerships and limited partnerships are separate legal entities.

General partnerships and limited partnerships are taxed at the corporate level and are subject to corporate income tax.

Simple partnerships, which are not separate legal entities, are also available, and are taxable at the level of the partners.

2.3 Branches and Representative Offices

A foreign company may generally conduct business in Russia through a branch. A branch is not a separate legal entity, and the foreign parent company is responsible for the debts and liabilities of the branch. The activities of the branch must match those of the parent company. Branches must be accredited by the Russian Federal Tax Service, and may also be required to register with other authorities, such as registration with the local tax inspectorate for tax purposes.

A representative office is not a separate legal entity, and is permitted to represent the interests of the parent company. Representative offices must be accredited by the Russian Federal Tax Service, and may also be required to register with other authorities, such as registration with the local tax inspectorate for tax purposes.

The profits of a branch or representative office are subject to corporate income tax if the branch/representative office is considered to be a permanent establishment; otherwise, the income received from sources in Russia may be subject to withholding tax, subject to the terms of any relevant tax treaty.

2.4 Individual Entrepreneur

An individual entrepreneur is an individual who independently owns and operates a business. An individual entrepreneur is not a separate legal entity and the owner has unlimited liability for the debts and liabilities of the business. An individual entrepreneur must apply for state registration, which is generally complete within five working days of submission of the relevant documentation.

Individual entrepreneurs are taxed under the personal income tax regime, or under one of the special tax regimes (see 5.7.4) if the relevant eligibility criteria are met.

2.5 Audit and Accounting Requirements

Companies are required to maintain accounting records. Simplified accounting methods may be used by small businesses (as defined). Annual financial statements should provide a fair representation of the financial position of the company, and include the balance sheet, income statement, and annexes.

The consolidated financial statements of listed companies, credit institutions, insurance companies and certain other entities must generally be prepared using the International Financial Reporting Standards (IFRS); separate financial statements must also be prepared using Russian Accounting Standards (RAS). Other companies are generally required to use RAS.

The annual financial statements of the following entities must generally be subject to a statutory audit:

- Joint stock companies
- Listed companies
- Credit institutions and certain other financial institutions
- Companies (subject to exceptions) whose annual revenue in the preceding year exceeded RUB400m, or assets on the balance sheet at the end of the preceding year exceeded RUB60m, and
- Companies (subject to exceptions) that publish a summary of their financial statements or consolidated financial statements.

Companies are generally required to maintain accounting records, annual financial statements, and the auditor's report (if applicable) for a period of at least five years following the year to which they relate.

2.6 Filing Requirements

Annual financial statements must be submitted to the tax authority within three months of the end of the accounting year (which is the calendar year).

3 Finance and Investment

3.1 Exchange Control

Foreign currency transactions between residents and non-residents may generally be carried out without restriction. However, purchases and sales of foreign currency (including cheques) may only be conducted through authorised banks if the nominal value is in a foreign currency. Foreign currency transactions between residents are generally prohibited, except in circumstances set out in legislation, including certain transactions involving foreign securities, and the majority of foreign currency transactions between residents and authorised banks. There are generally no restrictions on foreign currency transactions between non-residents.

Anti-money laundering legislation requires certain organisations and individuals to establish the identity of their clients, and to report transactions where there is sufficient evidence that they relate to money laundering or terrorist financing. The Federal Financial Monitoring Service is responsible for combating money laundering and terrorist financing.

3.2 Banking and Sources of Finance

The Central Bank of the Russian Federation is responsible for monetary policy, financial stability, and issuing banknotes and coins.

Commercial banks operating in Russia provide the majority of financial services.

There are generally no restrictions on foreigners opening bank accounts in Russia, or on accounts containing foreign currency.

The Moscow Exchange provides a marketplace for listing and exchanging securities.

The Russian Venture Capital Association (RVCA) provides details of private equity and venture capital investors.

3.3 Investment Incentives and Restrictions

For business related incentives, see 5.7.

There are generally no restrictions on foreign business investment in Russia; however, restrictions may apply to certain sectors, such as banking and insurance, and areas deemed strategically important.

4 Employment Regulations

For employment tax considerations, see 5.3.

4.1 General Employment Matters

Legislation provides minimum rights and conditions of employment in Russia, including maximum weekly working hours, rest periods, paid annual leave entitlement, and the minimum wage. Working terms and conditions may also be determined by a collective agreement.

Two copies of an employment contract must generally be prepared in writing and signed by both parties. The contract of employment must include:

- Names of the employer and the employee
- Place and date of the contract of employment
- Place of work
- Date that work commences
- For fixed term contracts – the duration of the contract and reason for concluding a fixed term contract
- Terms of remuneration
- Working hours and rest periods, and
- Details of any applicable collective agreement, if agreed by the parties.

An employee may generally terminate a contract of employment by providing two weeks' notice. An employer may terminate a contract of employment in specific circumstances, such as liquidation of the business (with two months' notice), or gross misconduct by the employee.

The statutory monthly minimum wage is RUB7,500.

4.1.2 Pensions and other benefits

Social security contributions (see 5.3.2) generally provide associated benefits.

4.2 Visas

Citizens of certain countries do not require a visa for visits to Russia.

Visas available for entry to Russia include:

- Tourist Visa
- Special Purpose Tourist visa
- Business Visa
- Multiple Entry Business Visa
- Transit Visa
- Private Visa
- Humanitarian Visa
- Student Visa
- Work Visa

For further information on visa requirements, visit www.fms.gov.ru.

There are generally no restrictions on foreigners purchasing real property in Russia. However, ownership of certain types of land is restricted, such as agricultural land and land in border territories.

4.3 Trade Unions

Trade unions may negotiate collective agreements with employers. It is not compulsory for employees to be a member of a trade union.



5 Taxation

Facts and figures as presented in section 5 are correct as at 3 September 2016.

5.1 Corporate Income Taxes

Russian organisations, foreign organisations that carry out activity in Russia through a permanent establishment, and foreign organisations that receive income from sources in Russia, are subject to tax, subject to the terms of any relevant tax treaty. The profits of certain controlled foreign companies (as defined) are also subject to tax in Russia, subject to exemptions.

The standard corporate income tax is 20%, comprising of a federal tax of 2% and a regional tax of 18%. Regional authorities may reduce the 18% rate in certain circumstances and within set limits. Foreign organisations that carry out activity in Russia through a permanent establishment are generally subject to tax at the rate of 20%. Foreign organisations that receive income from sources in Russia are generally subject to withholding tax (see “Withholding Taxes on Payments Abroad”), subject to the terms of any relevant tax treaty. Certain categories of taxpayer benefit from a 0% corporate income tax rate.

Capital gains are generally included in taxable income and taxed accordingly. Capital gains from the disposal of certain shares acquired in a Russian company after 31 December 2010 and held continuously for a period of at least five years are taxed at a rate of 0%.

Dividends received by resident companies are generally subject to tax at the rate of 13%. Dividends received by Russian companies are taxed at a rate of 0% if the receiving company has held for a continuous period of 365 days (i) at least 50% of the paying company’s authorised share capital, or (ii) at least 50% of the paying company’s depository receipts which entitle the receiving company to at least 50% of the paying company’s dividends.

Unutilised losses may generally be carried forward for relief against future profits for up to 10 years. However, losses may not be carried forward in certain circumstances, such as where profits are subject to a 0% tax rate. Capital losses may generally only be offset against the same category of capital gain. Losses cannot be carried back.

Group tax consolidation is available in Russia (subject to conditions); consequently losses can be offset against the profits of another company in the same group.

The tax year is the calendar year. Periodic tax returns must generally be filed for each tax reporting period: (i) first quarter, six months and nine months, or (ii) monthly during the calendar year. Periodic tax returns are due for filing within 28 days following the end of the reporting period. The final corporate tax return is generally due for filing by 28 March of the following year. Regardless of which tax reporting period is used, companies are generally required to make monthly advance payments of corporate income tax. Certain companies may make advance payments on a quarterly basis. Advance payments and the final balancing payment (if required) are due by the same deadlines for submitting the relevant tax return.

5.2 Personal Taxes

5.2.1 Resident individuals

Resident individuals are generally subject to income tax on their worldwide income at the rate of 13% (subject to exemptions and deductions).

Capital gains that are not tax exempt are subject to income tax at the rate of 13%. The following gains are tax exempt:

- Gains from sales of immovable property and other property held for at least three years (excluding securities and property used for business purposes)
- The first RUB1m of gains from sales of immovable property held for less than three years (excluding immovable property used for business purposes) per tax year
- The first RUB250,000 of gains from sales of other property held for less than three years (excluding securities and property used for business purposes) per tax year, and
- Gains from the disposal of shares in Russian companies held continuously for a period of at least five years (for shares acquired from 1 January 2011).

Dividends received by resident individuals are generally subject to tax at the rate of 13%.

A 35% tax rate applies to interest received in respect of (i) ruble currency bank deposits on any amount which exceeds the Central Bank's refinancing rate for rubles plus 5%, and (ii) foreign currency bank deposits on any amount which exceeds a rate of interest of 9%. Interest received in respect of bank deposits that does not exceed these limits is not subject to tax.

There is no separate inheritance or gift tax in Russia; however, income from certain gifts received from non-qualifying family members is generally subject to income tax. Income from gifts received from organisations and individual entrepreneurs, and prizes from competitions etc, in excess of set limits is taxed at the rate of 35%.

There is no wealth tax in Russia.

5.2.2 Non-resident individuals

Non-resident individuals are generally subject to income tax on their Russian source income, subject to the terms of any relevant double tax treaty, at the rate of 30%.

Non-resident individuals with the status of “highly qualified professional”, and non-resident individuals hired by resident individuals under an employment or civil contract for works (services) for personal, household and other similar purposes not connected with business activities are subject to tax at the rate of 13% on their employment income.

Dividends received by non-resident individuals from a Russian company are subject to tax at the rate of 15%.

5.3 Employment Related Costs and Taxes

5.3.1 Fringe benefits tax

There is no separate fringe benefits tax. Unless specifically exempt, taxable benefits-in-kind form part of the taxable income of individuals and are subject to personal income tax.

5.3.2 Social security costs

Employers are generally required to make social security contributions in respect of pension, social, and medical insurance funds. The rate for pension contributions is 22% of employees' pay up to RUB796,000 and 10% on the excess. For social insurance the rate is 2.9% of employees' pay up to RUB718,000. The rate for medical insurance is 5.1%. Lower rates may apply in certain circumstances.

In addition, employers are generally required to make contributions in respect insurance for occupational accidents and diseases at a rate of between 0.2% and 8.5%, depending on the business sector.

Employees are not required to make social security contributions.

5.4 Withholding Taxes on Payments Abroad

The rates of withholding tax on the following payments made abroad by companies are generally:

	%
Dividends	15
Interest	20 for companies (lower rates may apply to certain types of interest); 30 for individuals; exempt in certain circumstances
Royalties	20 for companies; 30 for individuals

For payments made to recipients in countries with which Russia has a double tax treaty, the rates of withholding tax may be reduced by the terms of the treaty.

5.5 Value Added Tax (VAT)

VAT is levied on the supply of goods, works, services, and property services in Russia, and on the importation of goods. From 1 January 2017 VAT is set to be levied on services supplied in electronic form (as defined) by nonresident companies.

The standard VAT rate is 18%. A reduced rate of 10% applies to certain supplies, including basic foodstuffs, certain goods for children, and certain medicines. A reduced 0% rate applies to certain supplies, including exports, and services relating to the international carriage of goods. Some supplies are VAT exempt, including certain medical goods and devices, insurance services, and certain financial and banking services.

There is no separate registration procedure for VAT purposes. Companies and individual entrepreneurs whose revenue in the previous three consecutive calendar months does not exceed RUB2m may be excluded from the VAT regime for a period of 12 months, subject to exceptions.

Registered traders can generally recover the VAT with which they themselves are charged on their purchases of goods and services, subject to conditions and possible exceptions.

5.6 Other Taxes

5.6.1 Corporate property tax

A corporate property tax is generally imposed on certain assets recorded on a Russian company's balance sheet as fixed assets. For non-resident companies operating through a permanent establishment in Russia, the tax is imposed on qualifying fixed assets. For non-resident companies without a permanent establishment in Russia, the tax is imposed on owned immovable property located in Russia. The maximum tax rate is 2.2%, which may be reduced in certain circumstances. The tax base for certain classes of real property is based on the cadastral value.

5.6.2 Personal property tax

A property tax is generally imposed on resident and non-resident individuals. Rates vary from 0.1% to 2% depending on the type and value of the property.

5.6.3 Excise taxes

Excise taxes are levied on certain products, including oil and gasoline, tobacco products, alcohol, and alcoholic beverages.

5.6.4 Land tax

Municipalities impose a land tax on the cadastral value of land (as defined) owned by individuals and companies as at 1 January each year, subject to exemptions. The tax rates are established by municipalities. The maximum tax rate is 1.5% (0.3% for certain land, such as agricultural land).

5.6.5 Extraction tax

An extraction tax applies to the extraction of minerals at varying rates.

5.7 Tax Incentives for Businesses

5.7.1 Research and development (R&D)

R&D expenditure can generally be deducted from taxable income. Expenditure in relation to certain R&D activities may be deducted at the rate of 150% (ratio 1.5).

5.7.2 Special economic zones (SEZ)

Companies operating in a SEZ benefit from various possible tax incentives, including accelerated depreciation, reduced social security contribution rates, corporate property tax exemptions, land tax exemptions, corporate income tax reductions and exemptions, VAT exemptions, and customs duty exemptions.

5.7.3 Far Eastern region incentives

Tax incentives are available for qualifying investments in new industries and high technology projects in the Far Eastern region of Russia. To qualify, an investment of at least RUB50m must be made within three years, or an investment of at least RUB500m within five years. The incentives include a corporate income tax exemption in relation to the percentage paid to the federal government for the first 10 years of operation, and a corporate income tax rate reduction in relation to the percentage paid to regional governments for the first 10 years of operation.

5.7.4 Educational and medical

Organisations carrying out educational, child care and/or medical activities (as defined) benefit from a 0% corporate income tax rate, subject to conditions.

5.7.5 Special tax regimes

There are various special tax regimes, including:

- Unified agricultural tax – available to agricultural producers
- Simplified tax system – available to certain organisations and individual entrepreneurs whose income in the first nine months of the year does not exceed RUB45m and whose subsequent yearly income does not exceed RUB60m (set to increase to RUB90m and RUB120m respectively from 1 January 2017)
- Single tax on imputed income for certain types of activities
- Taxation system for the performance of qualifying production sharing agreements, and
- Patent system of taxation.

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