



# Guide to Doing Business in Russia

| Bellerage







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## 1. Introduction

This Doing Business in Russia Guide is published and updated by **Bellerage** to provide businesses and entrepreneurs new to the Russian market with a practical overview of legal, tax, accounting and other business regulations. This guide was updated in the beginning of 2023.

**Bellerage** can consult you on any topic covered by this guide and provide you with a more detailed response to specific questions. Our contact details and overview of services can be found at the end of this booklet.



## 2. About the Russian Federation

Russia spans 11 time zones. The time in Moscow is UTC+3. There is no daylight-saving time in Russia.

Natural resources, especially energy resources, are the key driver for the Russian economy.

Capital: Moscow

Area: **17 million** square kilometers

Population (2021): **147.2 million**

**16** cities with a population exceeding 1 million

State language: Russian

Predominant religion: Orthodox Christianity

Ethnicities: **over 200** ethnic groups, but with a Russian majority of **over 80%**

Currency: Ruble (RUB)

President: Vladimir Putin

Nominal GDP (2021): **1 776 bln** USD

GDP per capita (2021): **12 173** USD

Sources: IMF, World Bank, Central Bank of the Russian Federation, Rosstat

International restrictions have fueled a strategy of import substitution and production localization, particularly in the agribusiness, consumer goods, and pharmaceutical sectors.

Localization and import substitution are being encouraged by government programs, particularly special investment contracts and the development of technology parks and special economic zones.

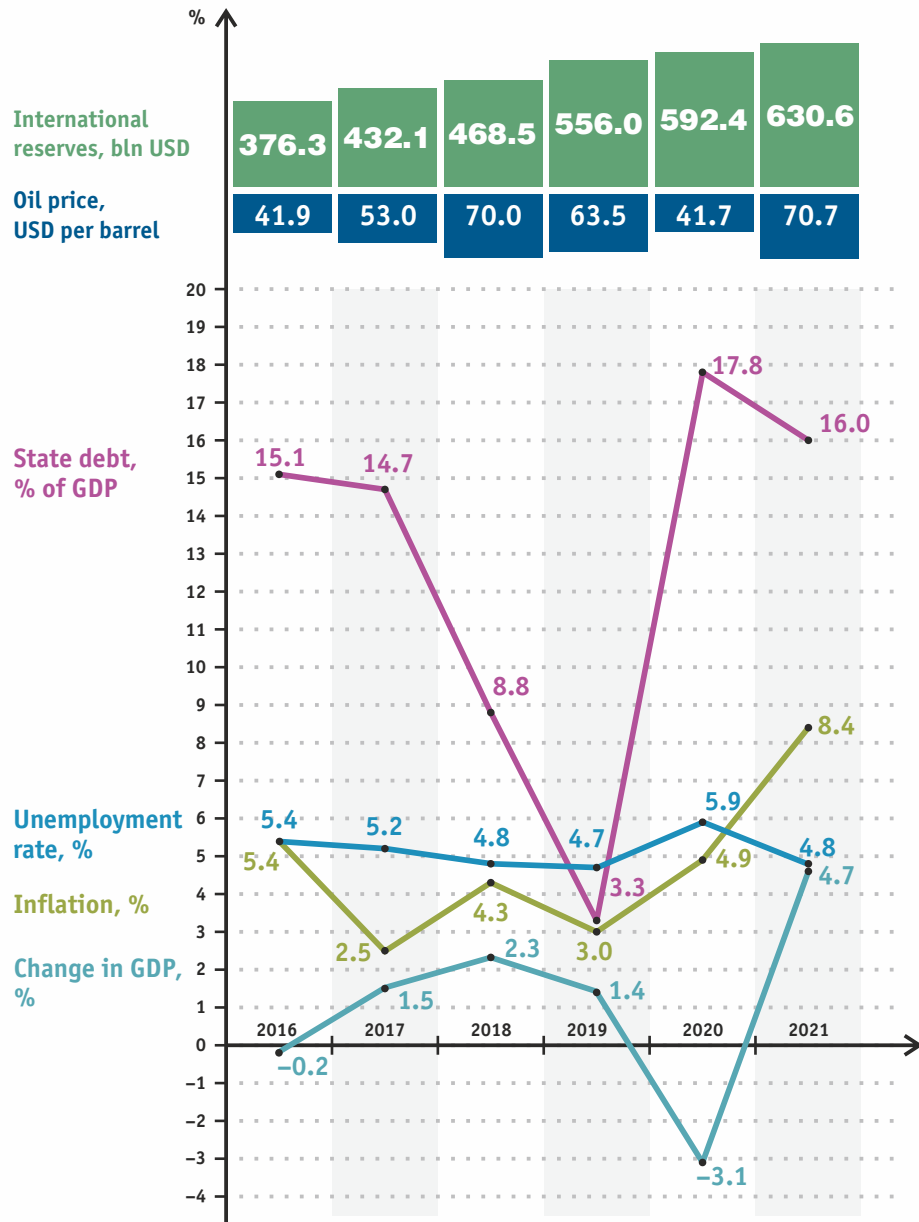
Despite the disturbances that emerged in 2022, the prompt measures taken by the government,



the accumulated reserves and stability on the labor market made it possible to avoid a sharp contraction of the Russian economy. According to forecasts of the RF Ministry of Economic Development, GDP reduction by the end of 2022 will not exceed 2.9%, while in

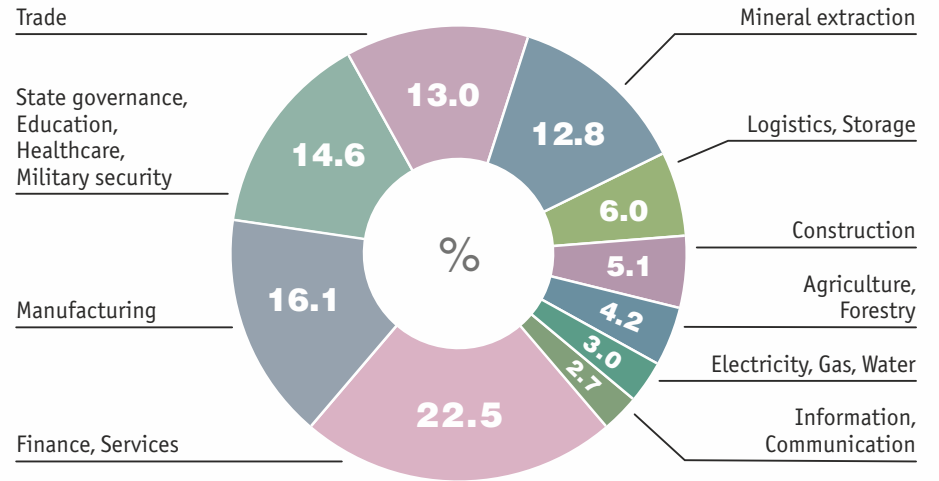
2024 it will begin to grow at an average annual rate of 2.6%, primarily due to the growth of domestic consumer and investment demand.

### Key economic indicators

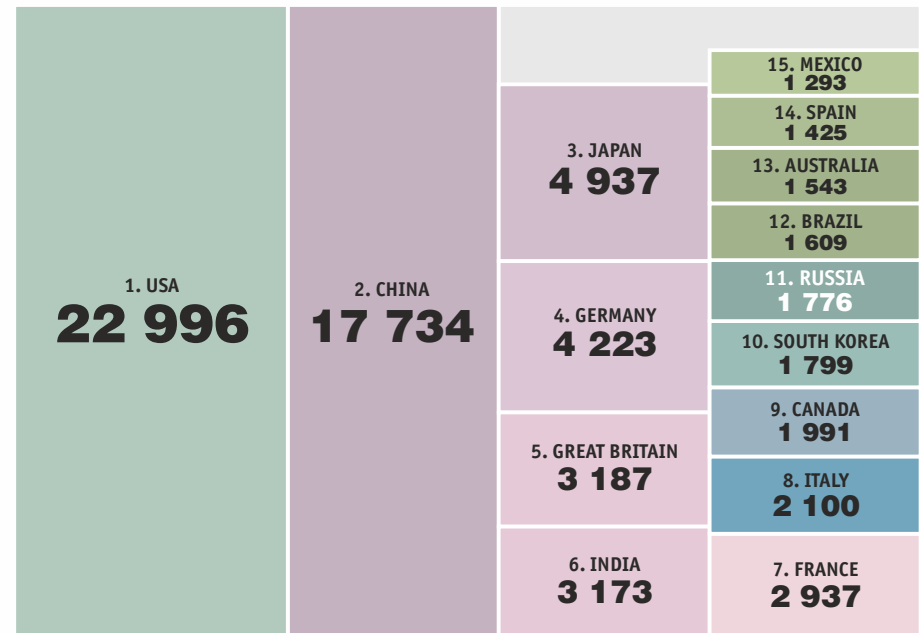


Sources: IMF, Central Bank of the Russian Federation, Rosstat, Russian Ministry of Economy, Russian Ministry of Finance

### Distribution of GDP in %, 2021



### Nominal GDP 2021, bln USD



### 3. Forms of Business Presence in Russia

#### Options for entering the Russian market

##### 1. Companies which do not establish a permanent presence in Russia

may conclude direct sales from a foreign company to Russian clients or sales through a Russian distributor.

##### 2. Companies which do establish a permanent presence in Russia

may do so with a Representative Office, Branch, or Subsidiary.

Each option has various specifics to consider.

| Form of business                   | Key specifics   | Purpose   | Ways of financing by founders  | Time to register  | Comments   |
|------------------------------------|---|---|--|-------------------|--|
| <b>Direct sales</b>                | All taxes and customs duties are paid by the client (except for providing electronic services – in this case, the business must be registered as a Russian tax payer) | Sales without a permanent presence in Russia  | —  | —                 | —  |
| <b>Sales through a distributor</b> | All taxes and customs duties are paid by the distributor  | Sales without a permanent presence in Russia  | —  | —                 | —  |
| <b>Representative office*</b>      | Part of the foreign company, not legally independent.<br>Limited types of activities.<br>Pays only payroll and property taxes   | Auxiliary functions — search for clients and partners, marketing (but may not conclude contracts).<br>Customs clearance of goods only (!) for private use. Cannot be used for certification of products and licensing | Bank transfers from the parent company (a convenient and simple form of financing)   | <b>8–12 weeks</b> | Registration fee: <b>138 000 RUB</b>   |
| <b>Branch</b>                      | Part of the foreign company, not legally independent.<br>Can conduct all types of activities.<br>Pays all taxes and customs duties                                    | Searching for clients, conclusion of contracts, sales and customs clearance of goods mainly (!) for private use.<br>Cannot be used for certification of products and licensing  | Bank transfers from the parent company (a convenient and simple form of financing)   | <b>8–12 weeks</b> | Registration fee: <b>138 000 RUB</b>   |
| <b>Subsidiary**</b>                | Independent legal entity bearing liability. Pays all taxes and customs duties   | Full-scale business operation with no limitations. Product certification and licensing of activities are allowed  | <ul style="list-style-type: none"> <li>• Capital increase (charter or additional)</li> <li>• Grant financing</li> <li>• Loans from participants</li> </ul> | <b>3–6 weeks</b>  | For registration of a limited liability company, the registration fee is <b>4 000 RUB</b> and the minimum charter capital is <b>10 000 RUB</b> |

\* A representative office may conduct commercial activities, making it an equivalent of a Branch.

\*\* To ensure smooth business operations in Russia (signing contracts, import of goods), it is recommended to establish a subsidiary company.



## 4. Companies

### Forms of company ownership

- **Limited liability company (LLC)** — the most common form
- **Joint-stock company (JSC)**
- **Public joint-stock company (PJSC)** — the least popular, as additional requirements for information disclosure are imposed on PJSCs

| LLC (Limited liability company)   | JSC / PJSC (Joint-stock company / Public joint-stock company)   |
|---|---|
| Maximum of <b>50</b> shareholders   | Number of shareholders is not limited   |
| Minimum charter capital of <b>10 000 RUB</b>  | Minimum charter capital of <b>10 000 RUB</b> for JSC (for PJSC: <b>100 000 RUB</b> )  |
| Charter capital is not divided into shares, but rather is expressed as equity interest                                | Charter capital is divided into shares  |
| Charter capital must be paid within 4 months of registration  | <b>50%</b> of Charter capital must be paid within 3 months, and the remaining <b>50%</b> within 1 year after registration             |
| The list of shareholders is maintained by the company itself  | The registry of shareholders is maintained by an authorized external company  |
| A shareholder may be removed by court decision in the event of repeated violations of the law and the company charter | A shareholder cannot be removed   |
| A shareholder may leave the company if this is provided for by the Charter, or may sell his/her interest              | A shareholder may not leave the company, but may sell his/her shares  |
| Equity interests of shareholders are not considered securities  | Shares are considered securities and are subject to state regulation and registration with the Central Bank of the Russian Federation |
| Current list of shareholders is available in the Unified State Registry of Legal Entities                             | The Unified State Registry of Legal Entities contains information only about the company founders                                     |

### Company registration

To register a company, one must prepare a standard package of documents, have it notarized and submit it to the Tax Office. Notarization may be carried out in Russia or another country; however, **the personal presence of all founders** of the future company is mandatory.

The registration procedure, including obtaining all necessary documents (company charter, foundation agreement, landlord's approval, etc.) usually takes 3–6 weeks. This includes the one week that the Tax Office is given to make its decision. However, keep in mind that **up to 15% of first-time registrations are denied**.

Using the company's actual office/workspace as its legal address is recommended. In some cases, it is possible to register the company at the home address of the owner or General Director.

“Nominal” addresses bear a high risk of being denied registration, a bank account, and/or the ability to participate in tenders. There is also the possibility of forced company liquidation and disqualification of its director for up to 3 years.

### Company owners and General Director

#### Shareholder(s):

- May become personally liable for the company's obligations, if these obligations arose due to the shareholders decisions or actions.
- A shareholders' agreement can be prepared, but its possibilities are limited by Russian legislation. In practice, shareholders' agreements are concluded in other jurisdictions.
- The company's debt to a shareholder may be converted into capital.
- A Russian legal entity may not be created by another legal entity if the latter has only one owner.
- In 2022, a special procedure was temporarily established for transactions with shares of Russian companies involving persons from the list of countries that have imposed sanctions on Russia — only with approval of the government commission for the control of foreign investment.

**The level of liability of the General Director of a Russian legal entity is substantially higher than in case of a Western company**

#### General Director(s):

- Bears full responsibility for the activities of the company under labor, tax, customs and **criminal** law.
- The functions of the General Director can be performed by a management company. It is also allowed to appoint a Managing Company and a General Director at the same time, if this is stipulated in the Charter.
- Several General Directors may be appointed for one company (this is rarely done).
- To mitigate risks, the powers of the General Director may be limited by adapting the company's Charter.

#### Company closure

Official closure of a company in Russia is a very lengthy and complicated process. Therefore, companies often cease their activities without closing the legal entity and continue filing “zero” reporting with the authorities.

The main forms of company closure are liquidation and bankruptcy.

| Liquidation   | Bankruptcy  |
|---|---|
| Grounds: <ul style="list-style-type: none"> <li>• decision of shareholders (voluntary liquidation)</li> <li>• decision of the tax inspection or court (forced liquidation)</li> </ul> | Grounds: court decision resulting from a default on obligations to creditors and/or the state   |
| Time period for an LLC — up to <b>12</b> months from the moment of filing the decision with the tax authorities (prolongation of <b>6</b> months possible)                            | Time period — <b>1 to 5</b> years   |
| A regulated procedure that includes an audit by the tax inspection  | A very complicated procedure that includes the appointment of an external liquidator, sale of assets at auctions, and settlements with creditors. Criminal liability may be imposed on the senior managers and founders of the company in Russia for <b>deliberate</b> bankruptcy |

## 5. Finance

### 5.1. Banking System

The banking sector in Russia is regulated by the Central Bank of the Russian Federation. It licenses and controls banks, issues money, sets the key interest rate and establishes official exchange rates.

#### Opening a bank account

A company may open one or multiple accounts, including at different banks. Accounts can be in either Russian rubles or other currencies.

To open an account, a document package must be submitted and signed **personally by the General Director** in the presence of a bank representative. The process takes 1-2 weeks. Legally, any ultimate beneficiary with a share of over 25% must be disclosed. In practice, banks may require disclosing any ultimate beneficiary with a share of over 10%, in which case opening an account may take one month or more.

In connection with the imposition of sanctions and restrictions on international transactions, it is recommended to open accounts in Russian branches of foreign banks, considering the following:

| International bank (OTP Bank, Raiffeisenbank, Bank of China etc.) | Russian bank with state participation (Sberbank, etc.) | Russian commercial bank                |
|---|--|--|
| Higher reliability  | Higher reliability                                     | Lower financial stability              |
| No restrictions due to sanctions                                  | Restrictions due to sanctions                          | Restrictions due to sanctions          |
| Long procedure for opening an account                             | Long procedure for opening an account                  | Quick and simple opening of an account |

A foreign citizen can also open an account in Russia in any currency. This requires a special application to the bank, a notarized passport copy and the document granting the foreigner the right to stay in Russia.

When opening a bank account outside Russia, Russian tax residents should notify the Russian tax authorities of the account and once a year report about account activity.



## Currency Control

Settlements between Russian residents can be made only in Russian rubles. Prices in contracts may be indicated in any currency, but they must be converted into rubles when making payments.

Settlements between residents and non-residents may be made in any currency and are subject to mandatory currency control by the banks (even for settlements in Russian rubles).

For import operations exceeding 3 million rubles and export operations exceeding 10 million rubles (including import/export of services), the related contract must be registered with the bank under a special procedure.

**Failure to comply with currency control requirements may result in significant fines of up to 100% of the transaction amount**

## 5.2. Business Financing

### Ways of business financing by founders

1. **Capital increase** (charter or additional)
2. **Grant financing**
3. **Loan**

| Capital increase (charter or additional)   | Grant financing   | Loan  |
|--|---|---|
| Made on the basis of a decision by a general meeting of shareholders. Change in the charter capital must be registered with the Tax Office. Change in the additional capital does not require registration | Made on the basis of a decision by a general meeting of shareholders; does not require registration with the Tax Office       | Issued on the basis of a loan agreement; legal documentation is simple  |
| Creates no additional tax burden under certain conditions.<br><b>Capital injections can be returned to the shareholders</b>  | Creates no additional tax burden if the funds are received from a shareholder who holds an equity interest of <b>over 50%</b> | Receipt and return * of a loan is not taxable. Loan forgiveness issued by a foreign lender before March 1, 2022, is also tax-free **  |
| <b>Subject to currency control</b> if one of the parties is a non-resident   |   | <b>Subject to currency control</b> if one of the parties is a non-resident. Requires registration of the contract at the bank if the amount is over <b>3 mln RUB</b>              |
| Does not increase the company's liabilities, makes financial indicators more attractive  |   | Increases the company's liabilities and makes financial indicators less attractive  |
| It is common practice to increase the charter capital to re-allocate the shares of owners and to comply with tender terms  | Classified as other income for accounting purposes and increases earnings (reduces losses).                                   | Convenient for temporary financing. From a taxation standpoint, payment of interest on a loan issued to an individual resident is often more profitable than payment of dividends |

\* Temporary anti-sanction restrictions apply to certain jurisdictions

\*\* As of December 2022

## 6. Taxation

### Types of taxes in Russia

- Federal taxes** — VAT, corporate income tax, excise taxes, subsoil tax, water tax
- Regional taxes** — property tax, transport tax, gambling business tax
- Local taxes** — land tax and retail tax

| Tax                                   | Rate   | Base  | Payment frequency    |
|---------------------------------------|--|---|----------------------|
| VAT                                   | <ul style="list-style-type: none"> <li>• <b>20%</b> — for most goods and services</li> <li>• <b>10%</b> — for a number of food products, medical goods, goods for children, etc.</li> <li>• <b>0%</b> — for export goods, international transport services, etc.</li> <li>• <b>No VAT</b> — for certain groups of medical goods and services, public transport, etc.</li> </ul>  | Cost of goods and services sold. The amount of VAT paid to suppliers during the manufacture of goods/services sold may be deducted from accrued VAT | Quarterly            |
| Corporate profit tax                  | <b>20%</b> (preferential rate for certain categories of companies and activities possible)   | Income minus the amount of recognized expenses  | Quarterly or monthly |
| Property tax                          | <b>Up to 2.2%</b> , depending on the region  | Accounting or cadastral value of real estate  | Annually             |
| Land tax                              | <b>Up to 1.5%</b> , depending on the region  | Cadastral value of land   | Annually             |
| Transport tax                         | <b>From 1 to 200 RUB</b> per 1 HP  | Engine power  | Annually             |
| Tax on dividends of Russian companies | <ul style="list-style-type: none"> <li>• <b>13% / 15%</b> — for individuals, which are residents of the Russian Federation (depending on the size of the total income)</li> <li>• <b>13% / 0%</b> — for legal entities, which are residents of the Russian Federation (depending on the size of the share and period of ownership)</li> <li>• <b>15%</b> — for non-residents, unless otherwise provided for by international agreements</li> </ul> | Dividends   | Upon payment         |

Other kinds of taxes and fees may apply, depending on the region, type of business and company assets. Some products such as cigarettes, alcohol, etc., are subject to excise duties.

### Social contributions and personal income tax

Social contributions to the Social Fund of Russia are accrued to the employee's salary and are paid at the expense of the employer.

Basic rates of social contributions:

| Employee's citizenship                                     | Aggregate insurance contributions                         |                        | Personal income tax*   |                 |
|--|---|------------------------|--|-----------------|
|  | For an aggregate annual income of up to about 1.5 mln RUB | over about 1.5 mln RUB | Residents**  | Non-residents** |
| Russians and citizens of the Eurasian Economic Union (EEU) | <b>30%</b>  | <b>15.1%</b>           | <ul style="list-style-type: none"> <li>• <b>13%</b> — annual income &lt; 5 mln RUB</li> <li>• <b>15%</b> — annual income &gt; 5 mln RUB</li> </ul> | <b>30%</b>      |
| Foreign citizens not including citizens of the EEU:        |   |                        |  |                 |
| Employees staying on the basis of a visa or patent         | <b>23.8%</b>  | <b>10%</b>             |  | <b>30%</b>      |
| Temporary or permanent residence permit                    | <b>30%</b>  | <b>15.1%</b>           |  | <b>30%</b>      |
| HQS status   | —   | —                      |  |                 |

\* The subject of personal income tax is the employee, but the tax is to be paid by the company. Some specific types of income as (such as lottery prizes) may be subject to different tax rates.

\*\* Tax residency is determined by the duration of stay in the Russian Federation during the last 12 months — a resident is a person who stays in Russia for a total of more than 183 days during the year.

Some companies apply preferential contribution rates (e.g., SMEs — see page 9, IT — see page 10).

In addition, the employer shall pay **occupational accident insurance** in the amount of **0.2% to 8.5%**, depending on the type of company activity. For the majority of companies providing services or selling goods, the fee amounts to **0.2%**.

### Simplified tax system (STS)

Companies using STS are exempt from VAT (not including import VAT) and corporate profit tax.



STS is available for companies which meet the following criteria:

- 1) company is at least **75%** owned by individuals
- 2) annual income does not exceed **188 mln RUB**
- 3) fixed assets values does not exceed **150 mln RUB**
- 4) company staff includes no more than **100** employees
- 5) company has no branches

In addition, the company may choose one of two STS options:

1. **15%** of income minus expenses (but not less than **1%** of revenue) (for Moscow; each subject of the Russian Federation has the right to determine the rate independently in the range from 5 to 15%)
2. **6%** of income (for Moscow; each subject of the Russian Federation has the right to determine the rate independently in the range from 1 to 6%)

Companies, that have exceeded the limits retain the right to use the simplified tax system if:

- annual income in the range of **188–251 mln RUB** \*
- company staff in the range of **100–130** employees

In this case, increased tax rates are applied depending on the STS regime:

- **20%** of the difference between income and expenses
- **8%** of income

## Automated simplified taxation system (ASTS)

The tax authorities strive for maximum transparency and automation of interaction with companies.

Automatic tax calculation is available in several regions of Russia (incl. Moscow), to companies that meet the following criteria:

- 1) At least **75%** of the company is owned by one or more individuals
- 2) Annual income not exceeding **60 mln RUB**
- 3) Value of fixed assets not exceeding **150 mln RUB**
- 4) No more than **5** employees, all employees are tax residents of the Russian Federation
- 5) The company has no branches
- 6) Settlement accounts are opened only in authorized Russian banks
- 7) Salary is paid only non-cash

Companies can choose one of two ASTS variants:

- **20%** of the difference between income and expenses (but not less than 3% of income)
- **8%** of income

ASTS and PIT are calculated by the tax authority and the bank itself. With some exceptions, no tax declarations are required.

## Tax benefits for small and medium enterprises (SME)

**SMEs included in the Federal Tax Service's register of small and medium-sized businesses and accredited IT companies benefit of special government support**

### Main tax benefits for SMEs:

1. Reduced rate of insurance contributions — **15%** on incomes exceeding the minimum wage (instead of ~ 30%)
2. Possibility to conclude fixed-term employment contracts with a staff of up to **35** people, for the retail sector — up to **20** people
3. Mitigation of punishment for administrative violations
4. Priority rights in state tenders
5. Simplified accounting regulations and personnel document management, etc.

### Conditions to be included into the SME registry

Automatic inclusion in the registry is provided for companies that have:

- 1) annual turnover up to **2 bln RUB**
- 2) number of employees up to **250** people
- 3) more than **51%** of the company is owned by individuals or SMEs (there are exceptions for this criterion)

A company with foreign participation can also obtain the status of an SME if the foreign shareholder also meets the criteria for revenue and headcount and is not registered in an offshore zone.

These facts must be confirmed by an independent auditor who checks the data and sends it to the Federal Tax Service.

The register is updated monthly, while information on foreign participants must be confirmed annually.

\*Income limits for 2023

## Benefits for the IT sector

The following benefits are available to IT companies that have passed accreditation:

- No scheduled inspections by state agencies until the end of 2024
- Deferment from military service, preferential loans for employees of certain specialties
- Simplified procedure for employment of foreign specialists
- Aggregate insurance premium rate of **7.6%** (instead of ~ 30%)
- Income tax rate of **0%** (instead of 20%)

Due to the fact that the legislation in the IT sphere is regularly updated, we recommend to re-specify the latest criteria for benefits application.

## 7. Personnel

### 7.1. Labor Relations

The Labor Code of the Russian Federation is the main law governing relations between employees and employers. It is mostly aimed at protecting the interests of employees.

Virtually all personnel documents and local normative acts can be signed electronically (using HRM EDI) and do not need to be duplicated on paper. In order to use HRM EDI, an organization and its employees must have an electronic signature. HRM EDI is especially relevant for companies with employees working remotely.

### Options of engaging personnel

| Hiring under an employment agreement   | Outstaffing  |
|--|--|
| [+] Most common way                    | [-] Available in exceptional cases for a maximum period of <b>9</b> months |
| [+] May be fixed-term in certain cases | [-] Frequent inspections by state authorities                              |
| [-] Complicated termination procedure  | [-] Risk of legal disputes with employees                                  |

## Procedure for hiring under an employment agreement

- 1) Interview/testing
- 2) Job offer (not binding in Russia)
- 3) Conclusion of an employment agreement
- 4) Signing of HR documents: hiring order, introduction to internal policies, etc.

From 2021, it is possible to establish both permanent and partial/temporary remote work in an employment contract. At the same time, in the case of an emergency, the employer can transfer employees to remote work without their consent.

## Employment agreement

- **Term:** unlimited (may be fixed-term in exceptional cases)
- **Probation period:** 3 months maximum (6 months for General Director and Chief Accountant)
- **Standard number of work hours per week:** no more than 40
- **Overtime:** maximum 4 hours within 2 days, maximum 120 hours per year; overtime is paid at 1.5–2 times base rate
- **Annual leave:** minimum 28 calendar days. Unused vacations days are carried over to the next year. Compensation for unused vacation days has to and can only be paid upon dismissal
- **Paid maternity leave:** 70 days before birth; 1.5 years after birth
- **Unpaid maternity leave:** until the child is 3 years old
- **Statutory minimum wage:** 23 508 RUB (Moscow, 2022)
- **Termination upon the employee's initiative:** with 2 weeks advance notice (3 days during trial period; 1 month for General Director and Chief Accountant)
- **Termination upon the employer's initiative:** only on the grounds stipulated by the Labor Code of the Russian Federation

### Grounds for employment termination upon the employer's initiative:

**In Russia, it is impossible to dismiss an employee at the employer's will without citing grounds stipulated by the Labor Code of the Russian Federation**



| Agreement of the Parties   | Termination of the Position  | Breach of Discipline   | Employee's Refusal to Amend the Terms of the Employment Agreement |
|--|--|--|---|
| Most common grounds for dismissal  | Procedure strictly regulated by law  | Complicated procedure for documenting the breach of discipline | Allowed in exceptional cases                                      |
| Possible at any time, does not require compliance with any procedures (notification, etc.) | The process will take not less than 2 months to complete   | In practice, such a dismissal takes 2-3 months to complete     | Minimum 2 months to complete the process                          |
| Employee's consent is required   | Employee's consent is not required   | —  | —   |
| Requires compensation in most cases  | Some categories of employees cannot be dismissed (pregnant women, women with children under 3 years old, others) | Increased quality requirements for HR documentation            | Complicated documentation is required                             |
| Difficult to challenge in court  | —  | High risk of challenge in court                                | —   |

Other grounds for termination of an employment agreement as indicated in the Labor Code of the Russian Federation are quite rarely applied due to the complicated procedures and inefficiency in practice.

### Labor protection

Health and safety issues for personnel are quite strictly regulated in Russia. Employers must perform workplace assessments and other activities. The issue of occupational health and safety is particularly relevant for industrial production businesses.

### Liability for violation of labor laws

Inspection of companies for compliance with labor laws is performed by:

- State Labor Inspection
- State Prosecutor

Major violations of labor laws include:

- 1. Violations of labor protection** — fines up to 200 000 RUB for each violation, suspension of business activity; criminal responsibility.
- 2. Delayed payment of salaries** — fines up to 100 000 RUB for each violation; suspension of business activity; criminal responsibility.
- 3. Violations of procedures for maintaining HR documentation** — fines up to 50 000 RUB for each violation.

## 7.2. Freelancers

A service contract with individuals (freelancers) can be signed for irregular works. It is recommended to conclude these contracts with caution, as the state authorities are inclined to reclassify them to labor agreements — especially if the services are provided to only one company.

| Individual Entrepreneur   | Self-Employed  | Individual  |
|---|--|---|
| Russian citizens and foreigners with a temporary residence permit       | Russian and other Eurasian Economic Union citizens                             | Any nationality   |
| Registration with the tax authority and opening a specific bank account | Registration through mobile application or website                             | Registration is not required  |
| Individual Entrepreneur STS "income" pays 6% income tax *               | Self-Employed 6% income tax automatically calculated in mobile application     | The company that employs the individual pays 27.1% social contributions and withholds Personal Income Tax (13 or 30%) |
| Annual reporting to the tax authorities                                 | Reporting is not required  | The company that employs the individual reports to the tax authorities and social funds                               |
| Maximum annual income ** — 251.4 mln RUB                                | Maximum annual income — 2.4 mln RUB. The list of allowed activities is limited | No annual income limitations. The list of allowed activities is limited   |

\* Individual Entrepreneurs may apply other taxation systems

\*\* No income limitations under the General Taxation System

## 7.3. Work Permits and Visas

To work in Russia, a foreign citizen must obtain a work visa (some countries are exempt) and a work permit.

Instead of the standard work permit, one may obtain a highly qualified specialist permit (HQS permit; see table on p. 12).

| Standard work permit  | HQS permit   |
|---|--|
| Preparation time — <b>2.5–3 months</b>  | Preparation time — <b>1–2 months</b>   |
| No special salary requirements  | Minimum salary — <b>167 kRUB</b> per month (until March 1, 2024) / <b>750 kRUB</b> per quarter (later) |
| No required work experience or qualifications (except for a number of quota-free jobs)  | High qualification level of the employee, diploma and work experience information are required         |
| To employ a foreigner, the employer must obtain a special permit  | No permit is required for the employer   |
| Valid for <b>1 year</b>   | Valid for up to <b>3 years</b>   |
| The employee must pass exams covering Russian language, history, and legislation  | No exams are required  |
| Medical certificates must be obtained   | Medical certificates must be obtained  |
| Quota must be documented (if the job is limited by a quota)   | No quota is required   |
| Taxes on salaries: personal income tax; insurance contributions *   | Taxes on salaries: personal income tax *   |
| Visas for accompanying family members not available   | Visas for accompanying family members may be obtained for the entire validity period of the HQS permit |
| Migration registration must be completed within <b>7 business days</b> after entering Russia ( <b>1 month</b> for the countries of the Eurasian Economic Union) | Migration registration must be completed within <b>90 calendar days plus 7 business days</b>           |

\* See Section 6, “Social contributions and personal income tax” (page 8)

Foreign citizens coming to Russia without visa (from Republic of Moldova, Tajikistan, Azerbaijan, Uzbekistan and others) must obtain a work patent (or an HQS permit). A patent is a special kind of permit that allows a foreigner to work at any company. The cost of a patent depends on the region and varies **from 3 000 to 9 000 rubles** per month. In Moscow and Moscow region — **about 5 000 rubles** a month.

In accordance with the Eurasian Economic Union Treaty, citizens of the Republic of Belarus, Kazakhstan, Armenia and the Kyrgyz Republic may work in Russia without a work permit or patent.

## Notifications to the Migration Service

|  | Notification   | Frequency   | Submitted by  |
|--|--|---|---|
| <b>All foreigners</b>  | on conclusion and termination of employment agreements         | Within <b>3 days</b> after conclusion/ termination        | Employer (and Foreigner, when the work is performed on the basis of a patent) |
|  | on arrival   | Each time when entering Russia / upon change of residence | Host (Landlord, Hotel, etc.)  |
|  | on departure from a place of temporary residence               | Upon departure from a place of temporary residence        | Host (Landlord, Hotel, etc.)  |
| <b>Foreigners with HQS permit</b>                                | on paying salary to HQS employees                              | Quarterly   | Employer  |
| <b>Foreigners with a temporary or permanent residence permit</b> | confirmation of residence in Russia and confirmation of income | Annually  | Foreigner   |

Violation of migration laws by the company can lead to fines up to **1 million rubles** and suspension of business activities for up to **90 days**.

## 8. Personal Data Protection

Collection and processing of personal data in Russia are subject to strict regulation:

1. Companies collecting Russian citizens' personal data, are required to use a database (server, storage) physically located in Russia.
2. Individual's personal data can only be processed with his/her consent.
3. 99.9% of organizations in Russia must submit reports to the state authorities on the processing of employees' and clients' personal data, as well as comply with the conditions of cross-border data transfer.

Compliance with personal data protection includes implementing Data Processing Policies and restricted access to the data storage facilities, as well as other measures.

Violations of data protection and storage laws will result in a fine of up to **6 million rubles** per violation, additionally a company's website in Russia may be blocked.



## 9. Licensing, Certification, and Product Marking

### Licenses and permits

All company activities in Russia may be divided into two categories:

1. Those which do not require a permit
2. Those which require either a state license or membership in a self-regulatory organization (SRO)

| Activities Requiring a License  | Requiring Membership in a SRO  |
|---|--|
| <ul style="list-style-type: none"> <li>• Education</li> <li>• Medical services</li> <li>• Production and trading of medicines, alcohol, etc.</li> </ul> | <ul style="list-style-type: none"> <li>• Construction and design engineering</li> <li>• Auditing</li> <li>• Appraisal, etc.</li> </ul> |

**Performing these activities without the appropriate license will lead to severe punishments, including closure of the business and criminal sanctions against the General Director and company management**

### Product certification and declaration

The import and sale of certain products in Russia require authorization documents such as certificates, declarations of compliance with technical requirements, etc.

The list of products that require certification is established by law and corresponds to the uniform rules of the Eurasian Economic Union (EEU). For example, all medicines and biologically active supplements are subject to mandatory state registration.

### Marking and traceability of goods

In order to reduce counterfeit and contraband products in Russia, systems for marking and tracing goods have been introduced over the recent years. Both measures are designed to track the movement of goods from the moment of import onto the territory of the Russian Federation to the moment of sale to the end consumer and guarantee its authenticity. They apply to different categories of products.

Marking requires the assignment of a specific code to each single good, registration in a special system and specific technical equipment at the seller. The traceability system controls goods by lots and does not require the use of additional equipment.

The list of goods to be marked currently includes alcohol, cigarettes, medicines, shoes and clothing, perfumes and others. Traceability requirements apply among others to refrigeration equipment, washing machines and baby carriages. In the future, the government plans to extend the marking and traceability systems to all products.

## 10. Intellectual Property and Trade Secrets

### Intellectual property

Intellectual property matters are regulated by the Civil Code of the Russian Federation.

In Russia, the rights to scientific works, works of art and literature, software and databases, trademarks, company names, inventions, industrial prototypes, and other intellectual property are subject to recognition and protection. Legislation provides not only for primary registration, but also for subsequent registration when items categorized as intellectual property are the subject of various transactions such as license agreements, exclusive rights agreements, and/or transfer of rights.

### Trademarks

**A trademark is protected by law within the Russian Federation only if it has been officially registered as either a Russian or an international trademark**

Registration of a trademark gives its owner exclusive rights to:

- use the trademark
- prohibit its use by other entities
- manage the trademark: allow usage, pledge the trademark, contribute it to share capital, etc.

Russia is a participant in the Madrid Trademark Registration System. For this reason, there are two ways to file an application for trademark registration in Russia:

| With the national patent agency  | With the international bureau of the World Intellectual Property Organization (WIPO)  |
|--|---|
| Application is filed directly only with the patent agency of Russia  | Basic registration in a country participating in the Madrid system is required  |
| Representation of a patent attorney duly accredited in Russia is required                                  | To be filed through the patent agency in the country of trademark origin; the agency sends it to WIPO, and WIPO sends it to the patent agency of Russia                           |
| Patent fees are less than international fees (both for registration and for extension of legal protection) | Simultaneous processing of applications in more than one country is permitted (if all concerned states are indicated). In this case, one application is filed and one fee is paid |
| Time for review is <b>1 to 1.5</b> years   | Time for review is <b>1 to 1.5</b> years  |
| Validity period is <b>10</b> years   | Validity period is <b>10</b> years  |

## Trade secrets

A number of laws in Russia protect trade secrets. In practice, the requirements established by these laws are extremely difficult to enforce, and therefore do not provide effective protection. In most cases, documents meant to protect confidential information from disclosure (nondisclosure agreements, corporate documents, etc.) are themselves of a declarative nature.

## 11. Customs Declarations

Russia is a member of the WTO as well as the Eurasian Economic Union (EEU). The principles of customs regulation are based on international practice and the rules of those organizations. Basis for calculation of customs duties is the customs value of goods and (or) the quantity, weight, volume of products. The amount of customs duties depends on the type of product and is usually **5–15%**.

Customs duties make up a considerable part of Russia's state revenue, and thus frequent and thorough audits by the customs authorities are carried out. During inspections the goods may be seized.

During customs clearance value-added tax (VAT) must also be paid at a rate of **20%** for most imported goods. For some products (a number of food, medical and other goods), a reduced rate of **10%** is applied. Equipment which has no analogues in Russia and which is included on a special list maintained by the Russian government, is not subject to customs duties and import VAT.

In 2022 a number of countries restricted the export of certain types of goods to Russia, and the Russian government introduced temporary supportive measures aimed at stimulating imports (simplification of customs procedures and financial incentives for certain categories of goods). Between EEU countries trade is customs-free. Furthermore there are agreements on reduced customs duties with Serbia, Singapore, Vietnam and several other countries.

## 12. Intragroup operations

**Russian tax authorities pay special attention to intra-group transactions. To be included in the tax base, they must be economically justified and duly documented**

Regarding cross-border transactions, all Russian companies are required to submit an annual notification to the tax authorities if the total annual turnover of such transactions exceeds **120 million** rubles. The tax authorities may verify the pricing level of controlled transactions. To confirm the market level of the applied prices, companies must provide transfer pricing documentation.

When entering the Russian market, international companies should adapt their policies on intragroup operations to the requirements of Russian legislation.

## 13. Accounting and Auditing

### Accounting

The Russian accounting system is governed by the state, including the chart of accounts, accounting principles, and statement forms. Unlike the accounting

principles used in Europe (IFRS) and the US (US GAAP), Russian accounting is based not on the business transaction, but on the documents confirming it (i.e., the legal form is more important than the economic content). At present, Russian Accounting Standards (RAS) converge towards IFRS.

Over **90%** of Russian companies use **1C**, a local ERP software, for accounting and tax compliance. **1C** is the system that is the most adapted to Russian legislation and local business practice. It can be integrated with any other corporate ERP system.

The General Director is responsible for arranging the company's accounting. The maintenance of accounting is delegated either to the Chief Accountant or an outsourcing company.

### Reporting

| Frequency: Annually   | Frequency: Quarterly   |
|---|--|
| <ul style="list-style-type: none"> <li>• Financial statements</li> <li>• Type of activity confirmation</li> <li>• Simplified tax system report</li> <li>• Corporate property tax declaration</li> <li>• Declaration on controlled transactions</li> <li>• Declaration on controlled foreign companies (CFC)</li> <li>• Declaration on participation in international groups of companies (CBC)</li> </ul> | <ul style="list-style-type: none"> <li>• VAT declaration</li> <li>• Corporate profit tax declaration</li> <li>• Personal income tax declaration 6-NDFL</li> </ul>          |
|   | Frequency: Monthly   |
|   | <ul style="list-style-type: none"> <li>• Unified Records Form (EFS-1) *</li> <li>• Social Contributions Report RSV *</li> <li>• Reports to Statistics Authority</li> </ul> |

\* Depending on the month, different sections of the report are submitted

Other kinds of reports may be mandatory, depending on the type of business and company assets.

### Audit

Auditing of accounting statements is not mandatory for Russian companies, except:

- For companies with an annual turnover of more than **800 million** rubles or assets exceeding **400 million** rubles
- Companies whose securities are admitted for trading on the securities market
- Financial, credit and insurance companies
- Non-government pension funds and other funds, including non-profit and charitable funds

If mandatory audit is required, information on the auditor has to be included in the annual financial statements of the respective period.

Any company may request an independent audit by an auditing company at the company's own initiative. This is common for companies with several shareholders or by subsidiaries of foreign companies whose policy requires auditing.

The financial statements of most Russian companies are published in the public domain on the Internet.

## 14. Special Economic Zones

A number of Special Economic Zones (SEZs) have been created in Russia for the purpose of developing specific regions and attracting investments to high-potential economic sectors. Each SEZ is strictly delimited in terms of territory and has a special legal status and a specific set of benefits (reduction or exemption from VAT, corporate income tax and property tax, as well as from customs duties and insurance contributions) for its residents.

Types of special economic zones:

- Industrial and production zones
- Technology and innovation zones
- Harbor zones
- Tourist and recreation zones

In addition to SEZs, there are also Territories of Advanced Development (TAD) — zones with favorable tax conditions and other privileges, created to attract investment to certain regions of Russia (Far East, Kuril Islands, some single-industry towns, etc.). The main difference from SEZs is the emphasis on the creation of urban infrastructure in SEZs instead of, for example, industrial infrastructure.

Also, in 2018, in response to international sanctions, special administrative districts (SARs), the so-called “internal offshores”, were created in Primorsky Krai and Kaliningrad Oblast. Unlike SEZs and TADs, the conditions in SARs are designed primarily for international holding companies that derive their revenues from operations in Russia. International companies registered in an SAR have preferential tax treatment for profits paid abroad.





## About Bellerage

**Bellerage**, as part of the International Network **XLNC**, is ready to offer its clients a wide range of outsourcing, consulting and auditing solutions in Europe, Asia, Australia and America.

Our team of more than 200 partners and 3 500 specialists throughout the world is focused on delivering professional service that meets the highest quality standards.

We began our business operations in Russia in 1999. Our local experience and expertise are confirmed by hundreds of successful projects for companies operating in different industries.

**Bellerage** is a corporate member of the following organizations:

- **Delovaya Rossiya (Business Russia)**
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- **Russian-Asian Union of Industry and Entrepreneurs (RASPP)**
- **French-Russian Chamber of Commerce (CCIFR)**
- **German-Russian Chamber of Commerce (AHK)**
- **Indian Business Alliance (IBA)**
- **Association of Entrepreneurs of Russia and Turkey (RTIB)**
- **Association of European Business (AEB)**
- **American Chamber of Commerce (AmCham)**
- **Canadian-Eurasian Chamber of Commerce (CECC)**

Our product line is designed to enable our clients to focus on their key activities, leaving us to take care of the rest.

**Bellerage is among the top 3 accounting service providers in Russia (RAEX) and is a leader by price-quality ratio in financial and legal outsourcing**

### Business Launch

- [+] market analysis and partner search
- [+] evaluation of potential opportunities and risks
- [+] due diligence on businesses and assets to be acquired
- [+] company registration
- [+] management company services
- [+] development of accounting policies and methodology
- [+] coordination of the logistics process
- [+] corporate insurance

### Accounting and Reporting

- [+] accounting and tax reporting
- [+] reporting in accordance with Russian, international and corporate standards
- [+] consulting on finance, accounting and tax

### CFO Services

- [+] assistance in cash flow management
- [+] performance analysis and budgeting
- [+] assistance in collecting accounts receivable
- [+] arrangement of bank operations
- [+] financial business model development
- [+] processes set-up and accounting department work monitoring

### Tax Advisory

- [+] tax structure of operations
- [+] transfer pricing
- [+] support during tax disputes
- [+] preparation and support during field audits
- [+] managing of tax risks
- [+] submission of reports on intragroup transactions, CFC

### IT Services

- [+] development and implementation of solutions based on **1C**
- [+] configuration of IT infrastructure
- [+] data exchange with ERP systems
- [+] automation of business processes
- [+] electronic document interchange introduction
- [+] server rental, licensing
- [+] automation of management reporting

### Human Resources

- [+] recruitment
- [+] visa support
- [+] payroll accounting
- [+] HR records management
- [+] development of internal policies

### Audit

- [+] audit by national and international accounting standards
- [+] due diligence
- [+] consolidation of reporting
- [+] transformation of reporting
- [+] verification of foreign participants for inclusion in the register of SMEs

### Legal Services

- [+] legal outsourcing
- [+] drafting and review of contracts
- [+] counterparty checks
- [+] labor law
- [+] personal data protection

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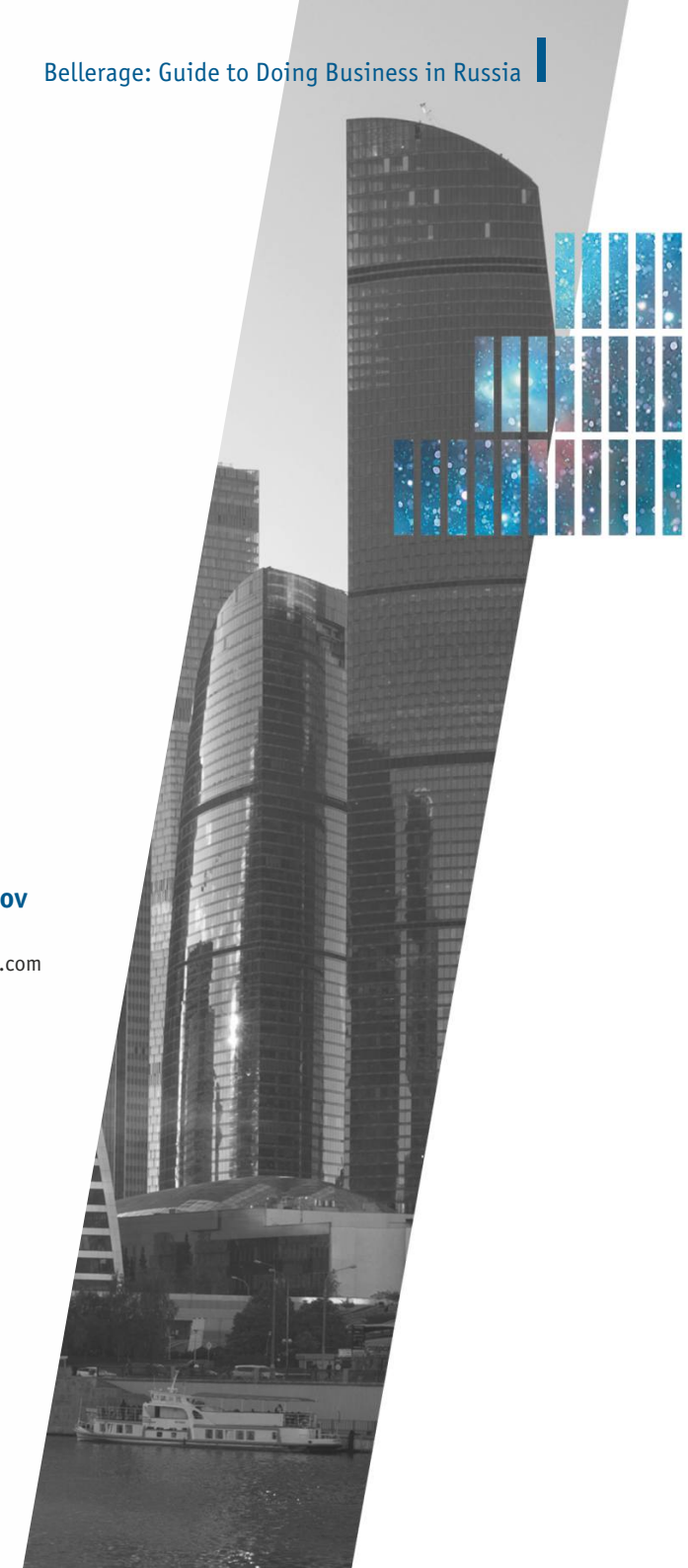
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