



# Russia

Prepared by Lex Mundi member firm,  
Egorov Puginsky Afanasiev & Partners

This guide is part of the Lex Mundi Guides to Doing Business series which provides general information about legal and business infrastructures in jurisdictions around the world. View the complete series at: [www.lexmundi.com/GuidestoDoingBusiness](http://www.lexmundi.com/GuidestoDoingBusiness).

Lex Mundi is the world's leading network of independent law firms with in-depth experience in 100+ countries. Through close collaboration, our member firms are able to offer their clients preferred access to more than 21,000 lawyers worldwide – a global resource of unmatched breadth and depth.

**Lex Mundi – the law firms that know your markets.**

## **I. The Country at a Glance**

### **A. What languages are spoken?**

Russia's 160 ethnic groups speak more than 100 languages. According to the 2010 census, 137.5 million (96%) people speak Russian. Russian is the only official language, but the Constitution gives individual republics the right to make their native language co-official next to Russian.

English tends to be used solely by international organizations and the foreign business community, but with Russia's increasing involvement in international business processes, the English language is becoming more widespread.

### **B. What is the exchange rate for the U.S. dollar, the Euro?**

The official currency is Russian ruble (RUB). As of July 6, 2017 the exchange rates of the Central Bank are:

1 USD (United States Dollar) – RUB 59,91 (Rubles);

1 EUR (Euro) – RUB 68,21 (Rubles);

1 GBP (Great Britain Pound) – RUB 76,88 (Rubles)

### **C. Describe your country's geography, proximity to other countries and climate.**

Russia is the largest country in the world (17,075,200 sq. km.), and the ninth in terms of population, with over 146.6 million people as of March 2016. It spans 11 time zones and incorporates a wide range of environments and landforms.

**Capital City:** Moscow, time zone is UTC+3

**Borders.** Along the 22,125-kilometer land frontier, Russia has boundaries with fourteen countries (Kazakhstan, Estonia, Latvia, Lithuania, Belarus, Ukraine, Georgia (including Abkhazia and South Osetia), Azerbaijan, North Korea, China, Mongolia, Poland, Norway, and Finland).

Russia has an extensive coastline of over 38,000 km along the Arctic and Pacific Oceans, as well as along the Baltic Sea, Sea of Azov, Black Sea and Caspian Sea. The Barents Sea, White Sea, Kara Sea, Laptev Sea, East Siberian Sea, Chukchi Sea, Bering Sea, Sea of Okhotsk, and the Sea of Japan are linked to Russia via the Arctic and Pacific. Russia's major islands and archipelagos include Novaya Zemlya, the Franz Josef Land, the Severnaya Zemlya, the New Siberian Islands, Wrangel Island, the Kuril Islands, and Sakhalin. The Diomedes Islands (one controlled by Russia, the other by the U.S.) are just 3 km apart, and Kunashir Island is about 20 km from Hokkaido, Japan.

**Administrative division.** The Russian Federation comprises 85 subunits (called federal subjects): 22 republics, 9 kraia (territories), 46 oblasts (provinces), 1 autonomous oblast, and 4 autonomous okrugs. The cities of Moscow, Saint Petersburg and Sevastopol also have federal status.

**Climate** is continental. Most of the territory has only two seasons, summer and winter, with very short intervals of moderation between them. Some areas constitute important exceptions to this description: the moderate maritime climate of Kaliningrad Oblast on the Baltic Sea is similar to that of the American Northwest; the Rus-

sian Far East, under the influence of the Pacific Ocean, has a monsoonal climate; and a narrow, subtropical band of territory on the Black Sea. Most of the country receives low to moderate amounts of precipitation. Long and severe winter as well as sharp fluctuations in the mean summer and winter temperatures, impose special requirements on many branches of the economy. In regions of permafrost, buildings must be constructed on pilings, machinery must be made of specially tempered steel, and transportation systems must be engineered to perform reliably in extremely low and extremely high temperatures. In addition, during extended periods of darkness and cold, there are increased demands for energy, health care, and textiles.

**Main rivers:** Volga (3,692 km), Don (1,950 km), Kama (1,805 km), Oka (1,500 km), the Northern Dvina (744 km) are in European part. Irtysh (4,248 km), Ob (3,650 km), Yenisei (4,000 km), Lena (3,630 km), Angara (1,779 km), Amur (2,824 km), Yana (872 km), Indigirka (1,726 km), Kolyma (2,129 km), are in the Asian part. Several other rivers originate in the country but flow into other territories, such as the Dniepr and the Western Dvina.

**Mineral resources.** Russia holds the greatest reserves of mineral resources of any country in the world. The country is the most abundant in mineral fuels. It may hold as much as half of the world's coal reserves and even larger reserves of petroleum. The most developed coal fields lie in western Siberia, in the northeastern European region, in the area around Moscow, and in the Urals. Major petroleum deposits are located in western Siberia and in the Volga-Urals. Natural gas, a resource of which Russia holds around forty percent of the world's reserves, can be found along Siberia's Arctic coast, in the North Caucasus, and in northwestern part of the country.

### D. Are there cultural influences or prohibitions on the way business is conducted?

There are generally no cultural influences or prohibitions on the way business is conducted in Russia. The Civil Code establishes that citizens and legal entities must act in good faith, reasonably and fairly when exercising their rights, and comply with the requirements which are contained in the legislation, as well as customs. There are official public holidays recognized by the Government. On these days, government offices, embassies, most of the offices and some shops are closed. If the date of observance falls on a weekend, the following day(s) will be day(s) off in lieu of the holiday(s).

- New Year's Day and New Year holidays – January 1-8
- Christmas Day – January 7
- Defender of the Fatherland Day – February 23
- International Women's Day – March 8
- Spring and Labour Day – May 1
- Victory Day – May 9
- Russia Day – June 12
- Unity Day – November 4

### E. Are there religious influences or prohibitions on the way business is conducted?

In Muslim regions the country (namely Republic of Adygea, Bashkortostan, Chechen Republic, Republic of Crimea, Dagestan, Ingushetia, Kabardino-Balkaria, Karachay-Cherkessia and Tatarstan), there are two official

public holidays in addition. On these days, government offices are working but most of the offices and shops are closed. Other than that, no religious influences are apparent.

**F. Explain your country's infrastructure. Be sure to explain which cities have airports, railroad systems, ports, and public transportation.**

**Railroads.** The total length of common-used railway tracks exceeds 86,000 km, third only to the United States and China. Additionally there are more than 34,000 km of industrial non-common carrier lines. More than a half of it is electrified. Railways in Russia, unlike in the most of the world, use wide gauge of 1,520 mm (4 ft 1156 in). The most renown is Trans-Siberian Railway or Transsib, spanning a record 7 time zones. With a length of 9,289 km, it is the longest railway line in the world. In 2013, railways carried nearly 90% of the country's freight. Railway transport is mostly under the control of the state-run Russian Railways monopoly.

**Motorways.** As of 2014, Russia had 1,396,000 km of roads, of which 2/3 are paved. Some of these make up the Russian federal motorway system. With a large land area, the road density is the lowest of all the G8 and BRIC countries. Russia's ratio of population per car is more than six times that of Western Europe.

**Waterways.** 200,000 km of inland waterways in the country mostly go by natural rivers or lakes. In the European part of the country, the network of channels connects the basins of major rivers. Major sea ports of Russia include Rostov-on-Don on the Azov Sea, Novorossiysk on the Black Sea, Astrakhan and Makhachkala on the Caspian Sea, Kaliningrad and St. Petersburg on the Baltic Sea, Arkhangelsk on the White Sea, Murmansk on the Barents Sea, Petropavlovsk-Kamchatsky and Vladivostok on the Pacific Ocean.

**Pipelines.** The country counts 171,200 km of gas pipelines and more than 75,000 km of oil pipelines. By total length of pipelines, Russia is second only to the United States. Nowadays, some new pipeline projects are being constructed.

**Air transport.** Russia has 1218 airports, the busiest being Domodedovo, Sheremetyevo, and Vnukovo in Moscow and Pulkovo in Saint Petersburg. Among the largest airports are those located in Yekaterinburg, Novosibirsk, Krasnodar, Sochi, Samara, Ufa, Krasnoyarsk, Khabarovsk, Vladivostok, Irkutsk, Kaliningrad, Kazan, Surgut, and Tyumen. The total length of airlines in Russia exceeds 600,000 km. Also there are 49 heliports. In the remote regions of the Russian North and Siberia, the transportation by air (usually by helicopters) is vital, and in some months of the year it is the only transport link to the rest of the country.

**Urban transport.** Major Russian cities have well-developed and diverse systems of public transport, with the most common varieties of exploited vehicles being bus, trolleybus and tram. Seven cities, namely Moscow, Saint Petersburg, Nizhny Novgorod, Novosibirsk, Samara, Yekaterinburg and Kazan, have underground metros, while Volgograd features a metrotram. Moscow Metro and Saint Petersburg Metro are the oldest in Russia, opened in 1935 and 1955 respectively. These two are among the fastest and busiest metro systems in the world, and are famous for rich decorations and unique designs of their stations.

**G. Explain the communication system.**

Russia was among the first countries to introduce radio and television. Due to the enormous size of the country it leads in the number of TV broadcast stations and repeaters. Russia is served by an extensive system of automatic telephone exchanges connected by modern networks of fiber-optic cable, coaxial cable, microwave

radio relay, and a domestic satellite system; cellular telephone service is widely available, expanding rapidly, and includes roaming service to foreign countries.

There are four telecom brands that cover all territory of the country: Beeline, MegaFon, Mobile TeleSystems (MTS) and Tele2. The access points (AP) are built in long-distance telephone exchanges (LDTes), Russian fixed-line communication infrastructure which is present in every province. As a result, interconnecting mobile operator only needs to create "last kilometer" circuits to the regional AP, the requirement already imposed by its mobile license. Rostelecom, the leading fixed-line operator in the country has regional subsidiaries who provide cellular services. In 2008, 3G network was deployed in St. Petersburg, in Kazan and in Sochi. By 2010, 3G networks covered largely most of Russia.

Internet access is available to businesses and to home users in various forms, including dial-up, cable, DSL, FTTH, mobile, wireless and satellite. In March 2013, a survey found that Russian had become the second most commonly used language on the web. Internet penetration had mounted to 71% in 2014, although concentrated in the main towns, where connections are faster and cheaper. Russians are strong users of social networks, of which Odnoklassniki.ru and VKontakte are the most popular. LiveJournal has also been long popular. Internet in Russia is also sometimes called Runet, although that term mostly refers to the Russian-language Internet.

Television is the most popular medium in Russia, with 74% of the population watching national television channels routinely and 59% routinely watching regional channels. There are 3300 television channels in total. 3 channels have a nationwide outreach (over 90% coverage of the territory): First Channel, Rossiya and NTV.

There are three main nationwide radio stations in Russia: Radio Russia (coverage: 96.9% of the population), Radio Mayak (92.4%) and Radio Yunost (51.0%). Most radio stations focus on broadcasting music, but they also offer some news and analysis.

#### **H. Describe the public services – i.e. water, electricity, gas. Are they publicly or privately owned?**

The majority of water, electricity, gas supply networks are publicly owned and these services are provided by local monopolies. Central water supply is available in cities.

## **II. General Considerations**

### **A. Investment policies**

- 1 Does the country generally welcome investment? Are there governmental or private agencies devoted to the promotion of investment?*

Russia welcomes investment. Foreign investments are regulated on both federal and regional levels. Foreign investors are treated the same as residents in the context of their investment and business activities with certain limitations that may be imposed in order to protect, in particular, state security. For example, foreign investors are prevented from controlling strategic companies.

Investors are protected from unfavorable changes in legislation. Such protection is provided to the foreign investors holding more than 25 percent of Russian company’s share capital during the first seven years of an investment project’s pay-back period.

The unit responsible for the implementation of investment policies is the Ministry of Economic Development. There is also the Russian Bank for Development promoting the investments. There are specialized governmental agencies also at the local level.

**I** *What is the rate of inflation?*

Table shows the annual inflation for the last 10 years. Inflation is presented as a percentage change relative to the previous period. The rate is calculated based on consumer price indexes, published by the Federal State Statistics Service.

<b>Years</b>	<b>Annual inflation in Russia, %</b>
2017	4,40 (July 2017)
2016	5, 38
2015	12,90
2014	11,36
2013	6,45
2012	6,58
2011	6,10
2010	8,78
2009	8,80
2008	13,28
2007	11,87
2006	9,00

**I** *Explain any sector exceptions, incentives or restrictions on foreign investment?*

Exceptions and restrictions exist in particular, in the forms of limits on foreign participation in sensitive sectors of economy, lists of property which is not allowed to be acquired by foreigners (e.g. agricultural, near-border land plots).

There is the Federal Law On the Procedure for Making Foreign Investments in Companies which are of Strategic Importance for Ensuring the National Defense and State Security dated April 29, 2008 No. 57-FZ. It provides for special procedure of obtaining permit of the Federal Antimonopoly Service for establishing control over “strategic” legal entities by foreign investors. Moreover, this Law prohibits to the offshore companies registered in the countries that do not disclose information to Russian tax authorities to establish control over “strategic” legal entities.

### I *Describe de facto restrictions on investment, if any, such as bureaucratic discretion.*

The Government proclaims favourable conditions for foreign investors. However, *de facto* restrictions on investment still exist and include, in particular, bureaucratic discretion in providing certain permits, licences, etc, non-compliance with the terms prescribed by law, etc. However, during recent years much has been done in order to minimize such *de facto* restrictions (e.g, detailed administrative procedures for providing state services have been developed, etc.), and work in this field is still ongoing.

### I *What are the sizes of the different markets?*

In Russia, services are the biggest sector of the economy and account for 58% of GDP. Within the service sector, the most important segments are: wholesale and retail trade, repair of motor vehicles, motorcycles and personal and household goods (17% of total GDP); public administration, health and education (12%); real estate (9%) and transport and communications (7%). Industry contributes 40% of total output, with mining (11% of GDP), manufacturing (13%) and construction (4%) the most important segments. Agriculture accounts for the remaining 2%.

The mineral-packed Ural Mountains and the vast oil, gas, coal, and timber reserves of Siberia and the Russian Far East mean that Russia is rich in natural resources, and these dominate Russian exports. Oil and gas exports, specifically, continue to be the main source of hard currency.

The petroleum industry in Russia is one of the largest in the world. Russia has the most significant reserves and is the biggest exporter of natural gas. It has the second largest coal reserves, the eighth largest oil reserves, and is the world's leading oil exporter in absolute numbers.

Russia is also a leading producer and exporter of minerals and gold. The country is the largest diamond-producing nation in the world, accounting for about 25% of global output.

Russia has more than a fifth of the world's forests, making it the largest forested country in the world.

Northern areas of Russia concentrate mainly on livestock, while in the south and in western Siberia, grain is produced. Private farms and individually owned garden plots account for over half of all agricultural production.

Russia's defence industry employs 2.5–3 million people, accounting for 20% of all manufacturing jobs. Russia is the world's second largest conventional arms exporter after the United States.

Aircraft manufacturing is an important industrial sector in Russia, employing around 355,300 people. The production and value of the military aircraft branch far outstrip those of other defence industry sectors, and aircraft products make up more than half of the country's arms exports.

Russia's space industry consists of over 100 companies and employs 250,000 people.

Car manufacturing is a significant industry in Russia, directly employing around 600,000 people or 1% of the country's total work force. The largest company operating in Russia's automotive industry is Avtovaz, located in the city of Tolyatti (Volga Region).

Russia's telecommunications industry is growing in size and maturity. As of December 2007, there were an estimated 4.9 million broadband lines in Russia.

Russian Railways accounts for 2.5% of Russia's GDP.

The IT market is one of the most dynamic sectors in the Russian economy. Russian software exports have risen from just USD 120 million in 2000 to USD 3.3 billion in 2010. The government has launched a programme to promote the construction of IT-oriented technology parks (technoparks) – special zones that have an established infrastructure and enjoy a favourable tax and customs regime – in seven different locations around the country: Moscow, Novosibirsk, Nizhny Novgorod, Kaluga, Tyumen, the Republic of Tatarstan and St. Petersburg. Russia is one of the few countries in the world with a home grown Internet search engine that maintains a significant market share: Russian-based search engine Yandex is used by 53.8% of Internet users in the country.

### **I** *What types of businesses are conducted in the country?*

A broad range of business is conducted in Russia. Historically, it was an industrial country with ranging manufacturing business: metal, chemical, machinery and military production. The country has huge reserves of gas, oil, coal and others mineral resources. This has led to the increasing production of raw material with numerous oil companies every year.

The biggest sector of the economy is services: retail, banking, consultancy, transportation and logistics, automobile centers and repair workshops, telecommunications and internet-trading, restaurant and hotel business, real estate and construction, medical care and pharmaceuticals. Public utility services occupy a sizable part of the market: there are numerous companies providing electricity, gas and water to consumers.

## **B. Diplomatic Relations**

### **I** *Explain any established diplomatic relations your country may have.*

Russia has established diplomatic relations with 190 countries. It has diplomatic relations with the Republic of South Ossetia, the Republic of Abkhazia and actively advocates strengthening relations with such unrecognized states as the Pridnestrovian Moldavian Republic (Pridnestrovie), the Donetsk People's Republic (DNR), the Luhansk People's Republic.

Russia attaches significant importance to developing relations with international organizations and is a member of international organizations and unions, including:

- the United Nations Security Council
- the G20;
- the Council of Europe;
- the Asia-Pacific Economic Cooperation (APEC);
- the Shanghai Cooperation Organization (SCO);
- the BRICS;
- the Organization for Security and Co-operation in Europe (OSCE);
- the World Trade Organization (WTO);
- the leading member of the Commonwealth of Independent States (CIS);
- the Organization of the Black Sea Economic Cooperation (BSEC);
- the Collective Security Treaty Organization (CSTO);

## Guide To Doing Business in Russia

- one of the five members of the Eurasian Economic Union (EEU), along with Armenia, Belarus, Kazakhstan, and Kyrgyzstan;
- the International Organization for Standardization (ISO);
- Hague Conference on Private International Law;
- World Intellectual Property Organization (WIPO);
- International Maritime Organization (IMO);
- World Tourism Organization (UNWTO);
- the International Olympic Committee (IOC);
- the International Electrotechnical Commission, IEC;
- the International organization of economic and scientific-technical cooperation in the range of electrical industry “Interelectro”.

The country is an Observer State in the Organisation of Islamic Cooperation (OIC) and the International Organization for Migration (IOM).

### **I** *Give addresses, and contact information for the embassies or consulates in your country.*

There are 159 accredited embassies or consulates in Russia, they are located all over the country in 31 cities. In Moscow there are 144 embassies/consulates. For up-to-date list of contact information for the embassies and consulates visit the consular website of the Ministry of Foreign Affairs: [www.kdmid.ru](http://www.kdmid.ru).

### **I** *Are there prohibitions or restrictions on certain business dealings with the country?*

Ukraine crisis prompted sanctions by the USA, EU, and some other countries covering certain economic activities. Also there are some response sanctions imposed by Russia. Moreover, prohibitions and restrictions on certain business dealings with the country are associated with tariff and non-tariff restrictions (mostly anti-dumping and special protective measures) in relation to the import of particular goods originating from the Russian Federation.

### **I** *Explain any travel restrictions to or within the country?*

The Russian visa policy lists the requirements which a foreign national wishing to enter the country must meet to obtain a visa, which is a permit to travel to, enter and remain in the country. Visa exemptions are based on bilateral or multilateral agreements. Citizens of countries without such an agreement must obtain a visa in advance.

Citizens of 38 countries and territories are eligible to visit Russia with a valid passport and without obtaining a visa in advance. These rules generally apply to holders of ordinary passports, rules for holders of diplomatic passports and other travel documents may differ.

## **C. Government**

### **I** *Explain your country's election system and schedule. Is there an anticipated change in the present government?*

The Russian Federation is a presidential republic. The President is strongly entrenched. The Constitution promotes the separation of powers among the federation and constituent entities of the Federation (region). The current trend is to strengthen “vertical of power”, i.e. federal centre.

The President is elected by popular vote for a six-year term (eligible for a second term but constitutionally barred for a third consecutive term); election was last held in 2012.

The Parliament is called the Federal Assembly (Federalnoye Sobranie). It is comprised of two chambers, the State Duma (the lower chamber) and the 176-member Council of Federation (the upper chamber).

The State Duma (Gosudarstvennaya Duma) consists of 450 deputies serving five-year terms, half elected by party lists, half elected in single-mandate electoral districts. Those parties whose lists have obtained at least 5% of electoral votes at the national elections participate in the distribution of 225 seats in the State Duma. The remaining seats are distributed among the winners in single-mandate electoral districts.

Currently, the majority belongs to the pro-presidential “United Russia” party. The State Duma appoints the federal Ombudsman, the chairperson of the RF Central Bank, and the Prime Minister upon the President’s proposal. The State Duma may announce amnesty and under certain conditions, may impeach the President. Leading political parties include United Russia, the Communist Party, the Liberal Democratic Party, and Fair Russia.

The Council of Federation includes two representatives from each subject of the Russian Federation (one from the legislative and one from the executive body) and representatives, appointed by the President (number of which shall not exceed 10 percent of the representatives from the subjects).

Government ministers are appointed by the President on the recommendation of the Prime Minister (whereas the appointment of the latter requires the consent of the State Duma).

**I** *Is the present government stable? Briefly explain your country’s political history in the last decade.*

Russia has had significant political stability since Vladimir Putin became the President in 2000. Putin had been the President until 2008, when Dmitry Medvedev was elected as the President. After that Putin became the Prime Minister. Putin returned to the presidency following the 2012 presidential elections, and Medvedev was appointed as the Prime Minister. During this time the party United Russia took the majority of the seats in the State Duma on each legislative elections. Therefore, there have not been any serious political crisis in Russia for over 10 years.

In the last decade elections of State Duma were held three times and Russian presidential elections two times.

In 2007, as a result of legislative elections the seats in the State Duma were allocated in the following way: United Russia 64.3%, the Communist Party 11.6%, the Liberal Democratic Party 8.1%, and the Fair Russia 7.7%, and none of the other parties won enough votes to gain any seats. It was the first parliamentary election since 1993 that lacked the “against all” option on the ballot, and the first in which there was no provision for the minimum number of votes needed for the election to be considered valid.

On December 31, 2008 the 5<sup>th</sup> State Duma adopted the first substantial amendments to Constitution of Russia which extended the terms of the President and the State Duma from four to six and five years, respectively.

The next legislative elections were held in 2011. United Russia won the elections with 49.32% of the vote, taking 238 seats or 52.88% of the Duma seats. This result was down from 64.30% of the vote and 70% of the seats in the 2007 elections. The Communist Party received 19.19% of the vote and 92 seats, while the Fair Russia received 13.24% and 64 seats, with the Liberal Democratic Party getting 56 seats with 11.67% of the vote. Yabloko, Patriots of Russia and Right Cause did not cross the 7% election threshold. United Russia lost the two-thirds constitutional majority it had held prior to the election, but it still won a majority of seats in the Duma, even though it had slightly less than 50% of the popular vote.

Federal laws which entailed serious consequences were passed on March 20, 2014: On Joining of Crimea to the Russian Federation and the Formation within the Russian Federation of New Entities – the Republic of Crimea and the Federal City of Sevastopol. It led to members of the then G8 suspending Russia from the group, then introducing the first round of sanctions against the country. It prompted a number of governments to apply sanctions against individuals, businesses and officials. Russia has responded with sanctions against a number of countries, including a total embargo on food imports from the EU, United States, Norway, Australia and Canada.

Russia is involved in the conflict in Syria against the ISIS, Al-Nusra Front and the Army of Conquest since 2015.

On July 24, 2016 the 6<sup>th</sup> State Duma passed the infamous legislative package of "anti-terrorism laws of Irina Yarovaya". It is required in particular that telecommunication providers record all of their traffic and keep the record for three years (later shortened to six months). These rules are coming into force on July 1, 2018.

Last legislative elections were held in Russia on September 18, 2016. As a result the United Russia won a supermajority of seats.

After Putin has returned to presidency in 2012, his popularity ratings have gone up. The next presidential election will be in 2018.

### **I** *Explain your country's judicial system. Be sure to answer the following questions:*

Judicial system includes courts of general jurisdiction, state commercial (arbitrazh) courts, Supreme Court, Intellectual Property Court and Constitutional Court as well constitutional (charter) courts of federal subjects. Courts of general jurisdiction trial all kinds of disputes, that are not subject to the jurisdiction of other specialized courts, and include:

- Magistrates;
- District courts;
- Courts of federal subjects.

State commercial (arbitrazh) courts are specialized courts for commercial disputes. They include:

- State commercial (arbitrazh) courts of federal subjects;
- Appellate arbitrazh courts;
- Regional Courts.

The courts of general jurisdiction as well arbitrazh courts are headed by the Supreme Court (till 2014 system of arbitrazh courts was headed by the Supreme Arbitrazh Court).

Intellectual Property Court is a specialized court for considering IP disputes.

Constitutional Court interprets the Constitution as well as decides whether certain legislation contradicts the Constitution. Constitutional (charter) courts of federal subjects exercise the same powers regarding constitution (charter) of the relevant federal subject.

**I** *Is the judicial system generally perceived to be impartial?*

According to the Constitution courts are independent from other branches of political powers. Judges are subordinate only to the Constitution and the law, which is the basic principle of justice.

**I** *Must disputes be resolved in the country?*

Generally disputes with foreign element may be resolved outside the country: in foreign state court or arbitration.

However, several exemptions from this rule exist in the procedural legislation. For instance, Article 248 of the Arbitrazh Procedure Code provides that state commercial courts have exclusive jurisdiction over the cases concerning: 1) state property, including privatisation disputes; 2) immovable property; 3) registration or issuance of patents and certificates to trademarks; 4) public registers; 5) incorporation or liquidation of legal entities and individual entrepreneurs.

**I** *Is there a political method of resolving disputes?*

Disputes shall be resolved in the order prescribed by law: by the courts or arbitration. Sometimes it is also required to apply to the competent administrative body before applying to the court.

**I** *Are alternative methods of dispute resolution permitted?*

The legislation provides for alternative dispute resolution methods, such as arbitration and mediation. Generally parties are free to agree to refer their disputes to arbitration or use a mediation procedure.

**Mediation**

Mediation procedure is governed by the Federal Law On the Alternative Procedure for Resolving Disputes with the Participation of an Intermediary (Mediation Procedure) dated July 27, 2010 № 193-FZ.

As the result of the mediation procedure parties may conclude a mediation agreement, which shall contain information on the procedure completed, the mediator involved and also the commitments agreed upon by the parties. In order to enforce such an agreement it is necessary to apply to the court in general order.

**Arbitration**

Arbitration procedure is governed by the Federal Law On Arbitrations in the Russian Federation dated December 29, 2015 № 382-FZ as well as Law On International Commercial Arbitration dated July 7, 1993 № 5338-1. Generally any private law dispute may be referred to an arbitration upon agreement of the parties (arbitration clause contained in the contract or separate agreement concluded). Parties may refer to an existing permanent arbitration institution or form an arbitration tribunal ad hoc by themselves for resolving specific dispute.

In order to enforce an arbitration award it is necessary to apply to the court for its recognition and enforcement. In such a case the court is not entitled to revise the case on the merits and shall control that only formal requirements were complied with.

***How long does it take to resolve disputes?***

According to one of the basic procedural principles in Russia disputes shall be resolved within a reasonable time. Each procedural code of the Russian Federation provides different terms for dispute resolution. For instance, under the Arbitrazh Procedure Code court of the first instance should consider the case within three months (with a possibility of extension up to six months). However, actual terms are usually longer depending on the type of dispute, evidence presented, etc. Please refer to the information of the World Bank regarding resolution of commercial disputes in Russia: <http://www.doingbusiness.org/data/exploreeconomies/russia#enforcing-contracts>.

***Can foreign judicial decisions be enforced in the country?***

Only judgements can be enforced in Russia. They can be enforced on the basis of relevant international treaty. However, there have been also cases when foreign judicial decisions were recognized and enforced on the basis of international principle of reciprocity and comity.

For the enforcement of a judicial decision, the plaintiff shall file an application to the court of the first instance at the debtor's place of registration (or if the debtor's place of registration is unknown - at the place of the debtor's property location).

Russian court shall not revise the case on the merits and may reject recognition and enforcement of the foreign decisions only on formal grounds (e.g., if the decision has not become binding for the parties yet or if the party against which the decision was taken had not been properly notified of the court hearing).

***Can decisions from the country be enforced outside the country?***

It depends on the laws of the country in which decision should be enforced. There are no Russian laws, which forbid enforcement of decisions of Russian courts outside the country.

***Are there separate tribunals depending upon the subject matter of the case?***

Along with the courts of general jurisdiction there are also courts specializing in commercial disputes (arbitrazh courts). Moreover, there is a special court for resolving disputes regarding intellectual property issues (Intellectual Property Court). This court considers cases regarding termination of legal protection of trade marks, etc as a court of the first instance. It also revises as court of the third instance the cases regarding intellectual property issues which were considered by the lower courts.

Moscow City Court also has special competence in the field of intellectual property protection. The owners of any works protected by copyright or neighboring rights can apply for preliminary blocking injunctions with the Moscow City Court before filing a court claim. Moscow City Court is entitled to issue an order to block access to infringing websites, permanently block access to repeatedly infringing websites as well as provides a simplified way to block “mirrors” of the infringing websites.

**I** *Are there different legal systems within the country or its political subdivisions?*

No, there are no such differences.

**I** *Can the investor choose to be subject to the country's jurisdiction or not?*

The investor can not declare that it will not be subject to the country's jurisdiction. However, the contracts with foreign element may generally be subject to foreign law if agreed so by the parties. Foreign investor and the Russian entity can choose the law that will govern their rights and duties under the contract.

**I** *Explain your country's legislative system.*

The legislative branch of power is represented by the Federal Assembly (Parliament), legislative (representative) bodies of the subjects of the Russian Federation and municipal representative bodies.

### **Federal legislation**

The Federal Assembly is a bicameral legislative and representative body, which consists of two chambers: the State Duma (the lower house) and the Council of Federation (the upper house).

Any bill shall be accepted by both chambers of the Parliament and then signed by the President.

On the federal level these are the President, the Council of Federation, members of the Council of Federation, deputies of the State Duma, the Government as well as legislative (representative) bodies of the subjects of the Russian Federation that have the right of legislative initiative.

Initially all bills are considered by the State Duma. If the majority of the State Duma votes for the bill, it is considered by the Council of Federation. The Council of Federation is not entitled to make amendments to the text approved by the State Duma and may only approve or reject them.

The President, the Government, the federal ministries and other state bodies may adopt regulations, that are consistent with the laws.

### **Regional and municipal legislation**

Legislative (representative) bodies of the subjects of the Russian Federation may adopt regional laws on (a) issues within the joint competence of both the Russian Federation and subjects of the Russian Federation and (b) issues within the exclusive competence of the subjects of the Russian Federation.

Lists of issues falling into joint competence and exclusive competence are provided by the Constitution.

On the local level municipal representative bodies may adopt municipal acts regarding local matters in accordance with the Constitution and the Federal Law On General Principles of Local Government in the Russian Federation dated October 6, 2003 № 131-FZ (e.g. local budget, local taxes, protection of public order).

Other regional and municipal bodies (e.g., local governments) are also entitled to adopt regulations on issues within their competence and in compliance with federal as well as local legislation.

#### **D. Environmental Considerations**

##### **I** *What is the public/government attitude toward environmental regulation?*

According to the Constitution every person has a right to favorable environment, reliable information on its state and compensation in case of injuries and/or property damage caused by ecological transgressions. During the last decades a number of acts have been adopted in order to ensure protection of environment. These acts may be divided into two categories: federal legislation and regional legislation, since according to the Constitution, environmental protection falls within the joint competence of the Russian Federation and its subjects. Legislation at a federal level establishes the set of general rules with regard to the environmental protection, while regional environmental legislation specifies federal regulations with respect to the procedures and standards.

Russia is a party to most major international conventions and treaties in the sphere of environmental protection, such as the 1992 Convention on Biological Diversity, the 1985 Vienna Convention for the Protection of the Ozone Layer and the 1987 Montreal Protocol on Substances that Deplete the Ozone Layer, the 1989 Convention on the Control of Transboundary Movements of Hazardous Wastes and Their Disposal and the 1992 Convention on the Transboundary Effects of Industrial Accidents. In case of any contradictions between provisions of Russian environmental regulations and provisions of international convention or treaty, the latter shall prevail.

##### **I** *Explain any environmental regulations.*

The Federal Law On Environmental Protection dated January 10, 2001 № 7-FZ and the Federal Law On Environmental Expert Review dated November 23, 1995 № 174-FZ require that an environmental impact assessment is conducted prior to any actions (including construction operations) which may have an impact on natural resources and environment being taken. Activities subject to the environmental impact assessment are permitted only after a positive state environmental expert review has been received.

Effective legislation provides for payments for negative impact on environment, in particular, for emissions of contaminants to the atmosphere or water, waste dumping.

Specific legislation is enacted in relation to air pollution (the Federal Law On protection of atmospheric air dated May 4, 1999 № 96-FZ), toxic and dangerous substances (the Federal Law On the Safe Handling of Pesticides and Agrochemicals dated July 19, 1997 № 109-FZ), preservation of aquatic biological resources (the Federal Law On Fisheries and Protection of Aquatic Biological Resources dated December 20, 2004 № 166-FZ), etc. In addition, a wide range of Government Regulations as well as acts of different ministries also contribute to the environmental legislation.

## **E. Intellectual Property**

- I** *Describe the law for the protection of intellectual property, including trademarks, copyrights, patents and know-how.*

Russian intellectual property legislation is well developed and provides various instruments of enforcement and protection of rights.

Russia is the party to most of the international treaties on intellectual property which constitute an integral part of its legislation. Starting from January 1, 2008 regulation on intellectual property (IP) issues has been unified within the Part Four of the Civil Code. However, some aspects are still governed by specific federal laws (for example, the Federal Law On the Protection of the Competition dated July 26, 2006 № 135-FZ) and by-laws.

Despite the fact that precedents as a source of law are not recognized in Russia, judgements of higher courts in most cases have a significant influence on further practice formation. From time to time, the Supreme Court consolidates court practice in order to uniform it. Among such sources:

- Resolution of the Plenum of the Supreme Court № 5, Plenum of the Supreme Arbitration Court № 29 dated March 26, 2009 On some issues that arose in connection with the enactment of the Part Four of the Civil Code;
- "Review of judicial practice in cases related to the resolution of disputes on the protection of intellectual property rights", approved by the Presidium of the Supreme Court on September 23, 2015; etc.

### **Trademarks**

A trademark must be registered by the Federal Service for Intellectual Property (Rospatent) (<http://www.rupto.ru>) as well as it is necessary to register transfer of rights to use such trademark under a license agreement or assigning such right to a third party.

The process of obtaining a registration certificate may take from one to two years.

Trademarks can be registered in different verbal, pictorial, volumetric and other forms or their combinations.

Trademark protection is granted for 10 years with the possibility of further indefinite extensions for 10-year periods, provided the renewal fees are paid.

### **Copyright**

Copyright protection includes published or unpublished works of science, literature or art regardless of their purpose, value or form. Copyright protection also includes computer programs and databases.

The protection covers only the work itself and does not cover any ideas, methods, concepts, principles, processes, systems, methods, solutions of technical, organizational or other problems, discoveries, facts, programming languages, geological information about subsoil.

The following objects are not protected by copyright:

- news;
- folklore;
- state documents and their translations;
- state symbols and signs of entities;
- money.

Relevant material is protected from the moment of creation and does not require registration. However, upon the owner's request, computer programs and databases can be registered by the state body. The registration procedure does not require an examination of the substance of the copyright material. If such registration was passed, it is also necessary to register transfer of the right to use such computer program / database under a license agreement or assigning such right to a third party.

Exclusive rights arising out of the copyright are protected for the lifetime of the author plus 70 years after his/her death. Non-exclusive rights are protected indefinitely.

### **Patents for inventions**

The rights for inventions cover the results of creative work in the area of technology, which may be a product or method. In order to qualify for protection, an invention should be:

- new;
- non-obvious; and
- applicable in industry.

The inventor (or his/her legal successors) or the inventor's employer (if the invention was made in the course of carrying out employment duties) must apply for state registration of the invention in order to obtain protection.

The registration of transfer of the right to use such invention under a license agreement or assigning such right to a third party is obligatory.

The inventor retains the right of authorship for the invention indefinitely. Patents are granted for up to 20 years.

### **Know-how (or Trade Secrets)**

Know-how is information of any kind (industrial, technical, economic, organizational, etc.) of the results of intellectual activities in science and technology as well the method of carrying out professional activities with actual or potential commercial value..

Such information is recognized as know-how if third parties do not have authorized access to such information and if the owner of such information has taken reasonable steps for protection of confidentiality of such information, including by introducing a special regime.

Trademark, copyright, patent and know-how matters are all governed by the Part Four of the Civil Code.

### **I** *Does the country subscribe to international treaties? Describe.*

The Russian Federation is party to all of the major international treaties in the field of intellectual property:

- the Paris convention for the Protection of Industrial Property Rights (1883);
- the Berne Convention for the Protection of Literary and Artistic Works (1883);
- WIPO Copyright Treaty (1996);
- WIPO Trademark Law Treaty (1994);
- the Agreement on Trade-Related Aspects of Intellectual Property Rights including Trade in Counterfeit Goods (TRIPS Agreement);
- the Madrid Agreement (1891);
- the Universal Copyright Convention (1952);
- the Patent Cooperation Treaty (1970);
- the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations (1961).

Russia also participates in several treaties in the area of IP on the regional level, for instance:

- the CIS Agreement on Cooperation in the Field of Protection of Copyright and Related Rights (1993);
- the International Treaty within the Eurasian Economic Union on Coordination of Activities on Protection of Intellectual Property Rights (2015)

### **I** *Are there substantive prior approvals by national investment boards?*

As a general rule, for acquiring IP assets there is no need to receive any prior approvals by national investment boards.

However, for acquiring IP assets connected to the military industry or strategic enterprises there is a need for prior approval from the corresponding state body.

### **I** *What are the notarization requirements?*

As a rule, notarization is not required for acquiring IP assets.

In some cases it may be required to apostille, translate or notarize some types of documents needed for filing applications (for example, application for trademark protection) to Federal Service for Intellectual Property or for filing lawsuit to a court (for example, a PoA on behalf of foreign legal entity should be apostilled, translated into Russian language and then such translation should be notarized).

### **I** *Are there regulatory guidelines for licenses?*

License agreements must meet certain formal requirements to be concluded under Russian law. The agreement must be in writing and contain at least:

- names and addresses of the parties;
- subject of the agreement; number of certificate/patent; name of invention precisely as in the State Register; list of licensed goods/services (for trademarks);
- scope of licensed rights (ways to use the IP assets);

- license fee;
- type of license (exclusive, non-exclusive). If the agreement does not specify the type, the license is assumed to be non-exclusive;
- term of the license. If the agreement does not specify the term, the agreement is assumed to be concluded for 5 years;
- territory covered by the license. If the agreement does not specify the territory, a licensee has the right to use IP assets throughout the country;
- signatures, dates of signing, signatories' surnames and initials, signatories' position, seals of the parties (if applicable).

If the IP asset was registered in the State Register, assignment is subject to state registration.

**I** *Are there specific exceptions or requirements in relation to a particular product(s)?*

There are specific regulations for inventions that are subject to secrecy.

Special state permit is required for medical products.

**I** *When are royalties from licenses deemed to be excessive?*

The royalties may be paid in a form of a fixed fee / or fixed regular payments / or to be dependent of the income (e.g. percent of the turnover).

Current legislation does not provide clear criteria for identification of the excessive royalties. However, Tax Code use different mechanisms of determination of the transaction market price, particularly the method of "compared transactions".

According to the Article 105.6 of the Tax Code, method of "compared transactions" is applied to imply comparing of analyzed transaction with a comparabile transaction, if they both are performed under similar commercial and (or) financial conditions.

**I** *Do local antitrust or competition laws apply to licenses?*

The legislation prohibits unfair competition in a form of acquisition and use of the exclusive right to the means of individualization of a legal entity, means of individuation of goods, works or services (Article 14.4 of the Federal Law On the Protection of the Competition dated July 26, 2006 № 135-FZ).

Moreover, article 14.4 of this Law prohibits unfair competition related to the use of the results of intellectual activities.

**I** *What typical agreements do foreign corporations enter into with their wholly owned subsidiaries?*

As a matter of practice, parties use a distribution or licensing contract.

### **III. Investment Incentives**

**A. Explain any export incentives or guarantees. Be sure to answer the following questions:**

**I *Are there tax incentives for exports?***

The exporter when placing the goods under the Export customs procedure may claim the VAT rate of 0%, subject to the provision of documents as set out by the Tax Code. I.e, the exporter within a 180 day period shall provide the tax authorities with a contract, a customs declaration and transportation and provide documents with the relevant stamps of the customs authorities in order to confirm the actual export of goods.

Even though the customs clearance is not carried out with respect to the goods exported from the territory of the Russian Federation to the territory of other member-states of the Eurasian Economic Union, the VAT rate of 0% is applicable in these cases as well. Thus, the exporter needs to provide the tax authorities with the statement on the import of goods and payment of indirect taxes with the relevant stamps of the EAEU state-member tax authorities.

In case the exporter fails to comply with conditions specified, the export of goods under Export customs procedure is subject to VAT at the rate 18 (10)%.

VAT shall not be paid or supposed to be returned if the goods are exported being placed under Re-Export customs procedure.

VAT exemption is also applicable in relation to particular types of goods exported under specific customs regimes, e.g. as stores, personal belongings.

**I *If so, are they limited to certain types of products?***

VAT incentives indicated above are not limited to certain types of goods except for the preferences available under specific customs regimes (see Section "Are there tax incentives for exports?" above).

**I *Is export financing available from government or private sources?***

Export financing is available from both governmental and private sources.

In relation to governmental sources export financing is provided by the financing institutions affiliated with Vnesheconombank (State Corporation "Bank for Development and Foreign Economic Affairs (Vnesheconombank)", <http://www.veb.ru>). In particular, such financing is available from the State Specialized Russian Export-Import Bank (joint-stock company) (Eximbank, <http://eximbank.ru>).

Also, a party concerned is free to obtain export financing from any private source.

**I *If so, what forms of financing or guarantees are available?***

Eximbank provides for the variety of financing and guarantees of export contracts.

For more information see the official web-site of the Eximbank: <http://eximbank.ru/eng/credits/index.php>.

**I *Is there any governmental insurance for exports?***

Governmental insurance for exports is provided by the Russian Agency for Export Credit and Investment Insurance (EXIAR).

For more information see the official web-site of the EXIAR: <http://www.exiar.ru/en/>.

- I** *Must a national be a participant in the enterprise in order for the investor to benefit from these incentives?*

The mentioned incentives do not provide for this requirement.

**B. Explain any grants, subsidies or funds your country offers foreign investors. Be sure to answer the following questions:**

- I** *Are grants and subsidies restricted by the type of activity?*
- I** *What is the process for obtaining approval for these grants or subsidies?*
- I** *How long does it take to receive approval?*
- I** *Can the investor receive loans from the government or governmental agencies?*
- I** *Must a national be a participant in the enterprise in order for the investor to receive these grants or subsidies?*

Grants, subsidies or funds are offered on the federal (i) and regional levels (ii).

- i.* On the federal level these measures are of targeted nature and preliminary intended to support producers operating in the underdeveloped sectors of the Russian economy. For instance, currently, according to the RF Government Decree dated April 15, 2014 № 328 On government program “Industrial development and competitive recovery”, such sectors cover, *inter alia*, automotive and machinery manufacturing, engineering, kids products production, chemical production, metallurgy, timber industry. Usually, the process for obtaining approval for these grants or subsidies includes the following stages. A party makes an application supported by the documents confirming the right to obtain the grant or subsidy to the competent body. The competent body reviews documents submitted and, considering available funding, renders decision whether to satisfy or deny the request. Afterwards the relevant financial control as to the applicant compliance with conditions of the grant or subsidy received is exercised. The terms vary and depend on the grant or subsidy applied for. In order to receive grants or subsidies, the applicant is to be a legal entity registered under the laws of the Russian Federation. Restrictions regarding foreign participation are only a few.
- ii.* On the regional level grants, subsidies or funds available depend on the priority spheres as well. The process for obtaining approval for the regional grants or subsidies is basically the same as of the federal ones.

As for the loans, foreign investors may obtain loans from the state provided that they are (1) exporting from Russia and (2) included in a special program approved together with the budget of the Russian Federation by the State Duma.

**C. Explain any national tax incentives for foreign investors. Be sure to answer the following questions:**

- I** *Are the incentives restricted by the type of activity?*
- I** *Are the incentives restricted by the duration of the activity?*
- I** *What is the process of application?*

An exemption from payment of import customs duty is granted in relation to the goods when making contributions into the charter capital of companies with foreign investments. In this regard the following requirements are to be complied with: (i) the goods shall not be excisable (ii); the goods shall be considered as fixed capital assets (iii) the goods shall be imported within the terms stated in the charter documents of the company. The exemption becomes inapplicable in cases of membership cessation and assignment of the imported goods for temporary use to third parties.

Specific tax and customs incentives provided for the foreign investor depend on the territory where the activity is carried out, the type of activity, or (and) investment amount. Regional authorities enact those tailored to regional programs and needs.

**Special Economic Zones: tax and customs incentives**

There are 22 Special Economic Zones (SEZ). Legal regime of 19 SEZ is specified in the Federal Law On Special Economic Zones in the Russian Federation dated July 22, 2005 № 116-FZ (SEZ under this law is created upon the RF Government Decree). The status of 3 SEZ, in particular, Kaliningrad SEZ, Magadan SEZ, Crimea and Sevastopol Free Economic Zone (FEZ) is subject to the laws establishing the mentioned SEZ.

Innovation Center “Skolkovo” established by the Federal Law On Innovation Centre “Skolkovo” should also be mentioned as a zone with certain incentives.

- SEZ established under the Federal Law On Special Economic Zones.

The status of a SEZ resident may be acquired by a company registered under the laws of the Russian Federation within the municipal unit where a particular SEZ is created upon the conclusion of the relevant agreement on conducting activity in this SEZ.

Application shall contain information as to the intended activity, amount of investments, state and (or) municipal property, land plot, energy and other resources required for the project. Applicant shall also enclose charter documents and business plan. The competent body reviews the application and, then, proceeds with the application and business plan to the expert council consideration.

Application process takes about 4 months.

Specifics relating to activity conducted on the SEZ territory depends on the type of SEZ, e.g.:

- Industrial and production zones (10 SEZ in place)
- Tourist and recreational zones (2 SEZ in place);
- Technology and innovation zones (6 SEZ in place);
- Port zones (1 SEZ in place).

For instance, the customs procedure of Customs Free Zone is not applicable in Tourist and recreational zones.

Mining activity (except natural curative resources), excises goods (except cars and motorcycles) production and processing are not allowed on the territory of SEZ.

Effective period of SEZ is 49 years, however, the premature termination of SEZ may be exercised.

The following tax incentives are available to residents of SEZ:

- Reduced income tax rates (equal or less than 13,5 %);
  - Exemption from property and land tax for the periods specified.
- SEZ with a special legal regime

- Kaliningrad SEZ (<https://investinkaliningrad.ru>)

The status of a resident of Kaliningrad SEZ may be acquired by a company registered in the territory of Kaliningrad region. Company shall manufacture goods exclusively in the territory of Kaliningrad region and not conduct banking (financing) and insurance activities and professional activity on the securities market.

The applicant, along with written application, charter and registration documents, shall submit an investment project complying with the requirements specified, e.g. amount of investments and intended activity. Intended activity shall not extend over oil and gas extraction and relevant services, excises goods (except cars and motorcycles) production, wholesale and retail trade, repair of household goods and personal belongings, financing activity.

Tax incentives are available for residents of Kaliningrad SEZ:

- Reduced income tax rates (0% during first six years, 1/2 of the regular tax rate during next six years);
- Reduced property tax rates (0% during first six years, 1/2 of the regular tax rate during next six years).

The expiration date of Kaliningrad SEZ is on April 1, 2031.

- Magadan SEZ (<https://oez.49gov.ru>)

The status of a resident of Magadan SEZ may be acquired by a company registered on the SEZ territory. An applicant shall not conduct banking (financing) and insurance activities and professional activity on the securities market. Additionally, a company shall carry out the primary activity and have not less than 75% of fixed assets on the territory of the Magadan region, and provide for business plan complying with the requirements specified, e.g. amount of investments and intended activity. Intended activity shall not extend over oil and gas extraction and relevant services, excises goods (except cars and motorcycles) production and processing, consumer services, production and maintenance of arms, military and special equipment.

Residents of Magadan SEZ enjoy reduced income tax rates (equal or less than 13,5%).

The expiration date of Magadan SEZ is on December 31, 2025.

- Crimea and Sevastopol FEZ (<http://minek.rk.gov.ru/rus/info.php%3Fid%3D608777>)

The status of a resident of Crimea and Sevastopol FEZ may be acquired by a company registered in the territory of Crimea or Sevastopol. In order to conclude an agreement on conducting activity in FEZ and acquire a status of a resident, an applicant shall submit a written application and enclose charter and registration documents and investment declaration complying with the requirements specified. A resident shall not conduct activity related to subsurface use for the purposes of exploration and production of mineral resources, exploitation of the continental shelf.

The following tax incentives are available for residents of Crimea and Sevastopol FEZ:

- Reduced income tax rates;
  - Exemption from land tax for 3 years.
  - Effective period for FEZ is 25 years.
- Innovation Center “Skolkovo” (<http://sk.ru/>)

The status of a participant of Innovation Center “Skolkovo” may be acquired upon the following conditions: (i) a company shall be registered in compliance with the laws of the Russian Federation, (ii) permanent executive body of a company (other persons acting on behalf of the company with full authority) shall permanently reside on the territory of the Center, (iii) charter documents of a company shall provide for conducting research activity exclusively on the territory of the Center, and (iv) a company shall undertake obligation to conduct research activity according to the applicable laws and rules.

The following tax incentives are available for the residents of Innovation Center “Skolkovo”:

- Exemption from income tax;
- Exemption from property tax;
- Exemption from VAT (except import VAT);
- Refund (exemption) of import customs duty and VAT in relation to goods imported for conducting activity.

Participation in the Center is effective during 10 years.

Application process in order to obtain status of a resident of Innovation Center “Skolkovo” is practically the same as of the SEZ established under the Federal Law On Special Economic Zones in the Russian Federation (see above). However, the deadlines provided may vary.

Additionally, some other tax preferences may be available for investors, e.g. preferences in relation to tax base calculation, refund of taxes paid, etc.

Furthermore, in order to claim particular tax incentives conditions stipulated are to be complied with (separate accounting, etc.).

Residents of SEZ usually may claim incentives provided under customs procedure of Free Customs Zones as well. In this regard see Section “*How are goods cleared through customs?*”

**Type of activity: tax incentives for investors**

Special tax regime is provided for the parties of the contracts on production sharing (mining operations) concluded with the Russian Federation. Certain incentives depend on the terms of the contract. Generally, investor is exempt from paying particular taxes and duties or granted preferences (reduced tax rates, refund of the amount of taxes and duties paid, etc.).

Contracts on production sharing are concluded as the result of an auction in relation to sites of subsurface resources specified in the federal laws.

**Amount of investments: tax incentives for investors**

Particular tax incentives are also provided for the investors implementing major investments projects. For instance, the income tax rate may be reduced by 2%.

**D. Explain any regional tax incentives open to foreign investors. Be sure to answer the following questions:**

- I** *Are there tax incentives for the investor that exists only in certain regions of the country?*
- I** *Does the investor need to receive approval to be eligible for these incentives?*
- I** *Are the incentives restricted by the type of activity?*
- I** *Are the incentives restricted by the duration of the activity?*
- I** *What does the process of application involve?*

Practically every regional government provides for foreign investors tax incentives which, along with other preferences available, depend on the priority spheres of a certain region.

As a general rule, in order to be eligible for the regional tax incentives investor shall apply for implementation of a qualifying investment project and conclude an investment contract with the regional authorities.

Certain incentives are specified by the regional authorities and may vary.

**IV. Financial Facilities**

**A. Banking/Financial Facilities**

- I** *What kind of financial institutions exist?*

Financial institutions that currently operate in the Russian Federation include the institutions that are regulated by the Federal Law On Banks and Bank Activity and other institutions. The first group comprises banks and non-bank credit organizations that are entitled to carry out bank operations. As for other financial institutions, at present time in Russia also operate pawnshops, financial companies (e.g. rendering such financial services as financial leasing), insurance companies, investment funds, private pension funds and other legal entities that solely operate as financial services providers.

- I** *Must the investor maintain a bank account in the country?*

The investor must not maintain a bank account in the country. If the investment is made in monetary form it could be transferred to the Russian Federation directly from the investor's account opened in a foreign bank or through an account opened in a Russian bank in accordance with the bank and currency legislation.

**I** *What are the requirements for opening a bank account?*

The procedure for opening a bank account is rather straightforward and, generally, involves:

- Submission to the bank of all documents required by the relevant regulations and by the bank in order to carry out the identification procedures. The set of documents to be submitted would, normally, include an application for opening an account, the document(s) evidencing registration (incorporation) of the investor, the so called "bank card" containing signatures of persons that are authorized to manage the account, the documents confirming the authority of such persons, etc.; and
- Execution by the bank and the investor of a bank account agreement.

**I** *What are the restrictions, if any, on the investor's use of the account?*

Non-residents may transfer foreign currency from their accounts outside Russia to their bank accounts in the authorized banks in Russia and vice versa without any restrictions (please refer to the Federal Law On Currency Regulation and Currency Control). However, some restrictions may be applicable in case of suspicion in money laundering.

**I** *What is the type of financial system in the country?*

There is no single act in Russia that governs the Russian financial system in general. Each type of financial institution is subject to specific regulations that set forth the rules and procedures for rendering of financial services and provide a framework for the state regulation of the financial services markets. The financial system is supervised by the Central Bank (the Bank of Russia). In addition, certain other state authorities, such as the Federal Financial Monitoring Service, the Federal Antimonopoly Service, are also responsible, within their authority, for supervision and control over financial market activities and financial organizations.

**I** *How is the banking system structured?*

According to the Federal Law on Banks and Bank Activity, the banking system includes (i) the Central Bank; (ii) Russian credit organizations (banks and non-bank credit organizations); (iii) representative offices of the foreign banks. Activity of Russian credit organizations and representative offices of the foreign banks is subject to regulation and control of the Central Bank, in particular Russian credit organizations may carry out any bank operations only after obtaining a license from the Bank of Russia; representative offices of the foreign banks shall be accredited by the Central Bank.

In addition, on the basis of the special act – the Federal Law on The Bank for Development the state corporation called The Bank for Development and Foreign Economic Affairs (Vnesheconombank) was established in 2007. Its functions (first of all stimulation of the investments) differ much from the functions of the commercial

banks established according to the Federal Law on Banks and Bank Activity. However, Vnesheconombank is also entitled to carry out bank operations, but it is not subject to licensing procedures of the Central Bank.

### **I** *Is there a stock market?*

The Russian stock market is governed by the Federal Law On Stock Market that contains general provisions on the securities circulation, determines legal status of the professional stock market participants (such as, brokers, dealers, depositories, clearing organizations, etc.) and stock exchanges. Currently, Russia is taking steps to make the local stock market more attractive for issuers and investors; regulatory and technical systems are being improved.

### **I** *Can the investor receive bank loans?*

There are no legislative restrictions. Conditions of the loan (rate of remuneration, repayment schedule, etc.) are subject to negotiations between the bank and the borrower. Generally, the bank will require posting of a guarantee or real security.

## **V. Exchange Controls**

### **A. Business Transactions with Nationals, Residents or Non-Residents**

#### **I** *How are nationals, residents and non-residents defined?*

Nationals are defined as individuals that acquired citizenship of the Russian Federation by birth, naturalization or otherwise.

Currency control regulations operate by categories of residents and non-residents. Residents are generally defined as Russian nationals (except those who permanently or temporarily (for more than one year) on the basis of work or (and) student visa reside outside the Russian Federation) and other individuals (foreigners and apatrides) permanently residing in the Russian Federation.

A category of residents also includes legal entities registered under the laws of the Russian Federation, their branches, representative offices, and other subdivisions located outside the Russian Federation.

A category of non-residents includes individuals who do not fall under the category of residents, legal entities and other institutions registered under the laws of foreign countries conducting activity outside the Russian Federation, as well as their branches, representative offices, and other subdivisions conducting activity in the territory of the Russian Federation.

#### **I** *Are there restrictions on conducting business with nationals, residents or non-residents?*

Generally, there are no omnibus restrictions on conducting business with nationals, residents or non-residents. However, the effective legislation stipulates a number of exceptions:

- Residents generally shall arrange payments subject to exchange controls through the accounts opened in the authorized banks.
- Payments in foreign currency between residents are prohibited (there are several exceptions).
- As a general rule, in the course of foreign trade activities residents are obliged to ensure the repatriation of funds within the deadlines provided for in the relevant contracts. In particular, residents shall repatriate earnings that are due to be paid to them under export contracts (sale-

purchase, services, licensing, etc.), or return funds paid to non-residents under import contracts which are not duly fulfilled (goods are not imported, services are not provided, etc.).

**I** *Are there reporting requirements?*

With respect to contracts which amount is over USD 50,000 residents shall provide an authorized bank with a Currency Transaction Report Form and the documents required pursuant to the Instruction of the Central Bank dated June 4, 2012 №138-I.

**I** *Can the investor receive loans from nationals, residents or non-residents?*

It is not prohibited for the investor to receive loans from nationals, residents or non-residents.

**B. Investment Controls**

**I** *Are there restrictions on direct investment in the country?*

Foreign investors have the same rights to conduct business activity as granted to Russian investors, with some exceptions.

Restrictions may be provided by the federal law in order to ensure fundamental principles of the constitutional order, good morals, health, rights of the third parties and national safety.

With respect to particular economic activities several restrictions are adopted. Such restrictions cover, for instance, quotas of foreign interest in banking and insurance sectors of Russian economy, limits on foreign participation in broadcasting media companies, air transport entities, entities of strategic significance.

**I** *Are there restrictions on indirect investments in the country?*

Most of the restrictions discussed in Section “Are there restrictions on direct investment in the country?” above are also applicable to the indirect investments.

**I** *Must the investor make declarations regarding the nature of his/her investment?*

An investor is not obliged to file declarations regarding the nature of his/her investments, unless it applies for benefits or exemptions.

**C. Money Transfer**

**I** *Is there free determination of exchange rates?*

The official exchange rate of Russian Ruble to foreign currencies is established by the Central Bank in accordance with the procedure set forth by the applicable rules. However, banks determine the rate for sale/purchase of foreign currencies freely relying on the currency market trends.

**I** *Are there restrictions on the transfer of money into or out of the country?*

There is a number of restrictions as to transfer of money into or out of the Russian Federation.

For instance, particular restrictions may be applicable under anti-money laundering and financing of terrorism prevention rules. Such restrictions primarily involve the mandatory control over suspicious transactions and major money flows, mandatory disclosure of certain information.

**I** *Are there restrictions on the remittance of profits abroad?*

The restrictions on the remittance of profits abroad are not imposed in case a foreign investor has duly paid all taxes and duties.

**I** *Are there reporting requirements?*

Residents shall notify tax authorities as to accounts opened in banks located abroad and provide for the relevant funds flow statements.

In case foreign company opens an account in Russian bank, such company shall be registered with the tax authorities at the bank location. Moreover, the bank shall notify the tax authorities of opening a bank account of a foreign company.

**I** *Can hard currency be taken out of the country?*

Yes. In case the amount of hard currency exceeds USD 10,000 it shall be declared. In this regard a declarant shall specify the source and intended use of the hard currency transferred.

## **VI. Import/Export Regulations**

### **A. Customs Regulations**

**I** *Is the country a member of GATT?*

Yes. Russia is a member of GATT.

**I** *Is the country a member of the EEC?*

No. Russia is not a member of the EEC.

**I** *Is the country a party to a regional free trade agreement?*

Russia together with Belarus, Kazakhstan, Armenia, and Kyrgyz Republic is a member-state of the Eurasian Economic Union. The EEU was founded on January 1, 2015 on the basis of the Eurasian Economic Community. Within the territory of the EEU the member-states adhere WTO principles, guarantee free movement of goods, capital, services and people, by means of implementing coordinated and unified policy in relation to the agreed sectors of economy.

Economic integration within the EEU is also ensured by the unified customs rules within the Customs Union of the EEU.

Free Trade Agreement is in force between the former Soviet republics. However, in relation to the Ukraine the application of the Agreement has been suspended from January 1, 2016.

**I** *Does the Customs Department value the goods?*

Customs value of goods is generally calculated by a declarant. However, while exercising the relevant control, customs authorities may correct the declared customs value of goods in case it is found out that the customs value of goods is incorrect, including application of the incorrect method for calculation of customs value of goods.

The decision to correct customs value of goods may be adopted by customs authorities either before or after the release of goods.

**I** *How are goods cleared through customs?*

At the moment in the territory of the Customs Union (including the territory of the Russian Federation) the Customs Code adopted on November 27, 2009 within the Eurasian Economic Community is in force. However, it will become inoperative from the moment new Customs Code of the Customs Union of the EEU approved on April 11, 2017 comes into effect.

Usually, customs clearance of goods is carried out by placing the goods under the chosen customs procedure with submission of the customs declaration and documents required. As a general rule, the party to the contract incorporated or domiciled in the territory of a member-state of the Customs Union may act as a declarant. Applicability of the certain customs procedure generally depends on the status of the goods (foreign or domestic) and intended use of goods. Customs duties, taxes and other requirements necessary for moving the goods across the border depend on the chosen customs procedure.

The Customs Code of the Customs Union provides for the following customs procedures:

1. *Release for Internal Consumption*
2. *Export*
3. *Customs Transit*
4. *Customs Warehouse*
5. *Inward Processing*
6. *Outward Processing*
7. *Processing for Internal Consumption*
8. *Temporary Import (Access)*
9. *Temporary Export*
10. *Re-Import*
11. *Re-Export*
12. *Duty-Free Trade*
13. *Destruction*
14. *Abandonment to the State;*
15. *Customs Free Zone;*
16. *Free Warehouse;*
17. *Special customs procedure.*

*Release for Internal Consumption* is generally applicable for the purposes to release foreign goods for free circulation on the internal market. In order to apply for the procedure a declarant shall pay import customs duties

and taxes (including VAT), comply with prohibitions and restrictions (including the compliance with non-tariff requirements, e.g. applicable technical regulations as to the minimum safety standards of goods; import licensing requirements, etc.). Additionally, it is required to observe restrictions associated with the application of special protective, anti-dumping, and compensation measures.

*Export* is applicable if domestic goods are intended for permanent use out of the Customs Union territory. In order to apply for the procedure a declarant shall pay export customs duties, VAT (if the VAT rate 0 % has not been claimed), comply with prohibitions and restrictions (including the compliance with applicable export licensing requirements).

For the manufacturing purposes (e.g. tolling, service maintenance), customs procedure of *Inward Processing, Outward Processing or Processing for Internal Consumption* may be employed. In order to place goods under these procedures a declarant shall provide customs authorities with the document on the terms of processing of goods issued by the authorized agency of the member-state of the Customs Union. Generally, under these procedures a declarant is exempt to some extent from customs duties and taxes and not obliged to comply with restrictions and prohibitions specified. The processing shall be carried out within the deadlines provided upon the condition of the identification of goods in the products of their processing.

Preferential customs regime of *Customs Free Zone* is available to residents of Special Economic Zones. A declarant is exempt from customs duties, taxes. Also, non-tariff measures in relation to foreign goods, and restrictions and prohibitions in relation to goods of the Customs Union are not applicable.

Other customs procedures are applicable either for specific purposes (storage, transit, temporary use of goods), or in order to follow a previously declared customs procedure.

Additionally, *special customs regimes*, usually more preferential, are provided for the particular types of goods. This applies to goods moving by international post, personal belongings, vehicles used for international transportation, and others.

### **I** *Are there applicable tariffs?*

For the purpose of customs clearance of goods the following tariffs may be applicable:

- Import Customs Duties

Import customs duties are unified within the Customs Union and set by the Decision of the Eurasian Economic Commission dated July 16, 2012 № 54.

Import customs duty rates are established as a percentage of the customs value of the goods or in Euro/US Dollars per unit of the goods, or as a combination of these methods.

- Export Customs Duties

Export customs duties are provided for the particular types of goods and fixed by the RF Government Decree dated August 30, 2013 № 754. Export customs duty rates are established as a percentage of the customs value of the goods or in Russian rubles/Euro/US Dollars per unit of the goods, or as a combination of these methods.

- VAT is generally paid for the goods imported to the territory of the Russian Federation and fixed by the Tax Code.

VAT rate is 18 (10) % and depends on the type of imported goods.

- Excise Tax

Excise tax is fixed by the Tax Code and levied on the import of excisable goods to the territory of the Russian Federation. Excisable goods include ethyl alcohol, spirit-containing goods (except medications, perfumes or cosmetics), alcohol products, tobacco goods, petrol gasoline, diesel fuel, engine oil, vehicles and motorcycles, and some other goods.

- Customs Fees

Customs fees are obligatory payments paid for customs formalities conducted by customs authorities. Customs fees rates are fixed by the RF Government Decree dated December 28, 2004 № 863.

## **B. Exports**

### **I *Are there restrictions on exports?***

The restrictions on exports are imposed with respect to particular goods and, in general, may be divided into the following types:

- Prohibitions on export (e.g. extremist, pornography, and other prohibited materials, weapons)
- Temporary prohibitions on export (e.g. the UN Security Council sanctions)
- Quantity restrictions on export (e.g. restrictions in relation to goods of an essential importance for internal market)
- Licensing of export (e.g. cultural values and archives recordings, mineralogy and paleontology collections, mineral raw materials, drugs, dual-use goods)
- Exclusive rights on export (e.g. natural gas)
- Sanitary and epidemiological, veterinary, quarantine, phytosanitary, and other similar restrictions.

### **I *Are export licenses required?***

Export license shall be obtained for the particular types of goods which may be used against the interests/safety of the Russian Federation or international community, e.g. environmental destruction, terrorist attacks, and etc, or are of a major importance for the Russian Federation, e.g. cultural values and archives recordings, mineralogy and paleontology collections, mineral raw materials, drugs, dual-purpose products.

### **I *Are there applicable export duties?***

For the purposes of export of goods a declarant usually shall pay:

- Export Customs Duties
- Customs Fees

A declarant while exporting goods may apply for VAT rate 0 % upon meeting the conditions specified in the Tax Code. For more information see Section III “*Are there tax incentives for exports?*”.

For the brief summary of the applicable duties see Section IV “*Are there applicable tariffs?*” above.

### **C. Foreign Trade Regulations**

#### **I** *Are there foreign trade regulations on the import or export of goods involved in the business?*

The Russian Federation applies uniform measures with respect to the external trade activities in accordance with the Treaty on the Eurasian Economic Union dated May 29, 2014.

The framework of foreign trade regulation on the import or export of goods involved in the business in the Russian Federation is established by the Federal Law On Framework of Government Regulation of External Trade Activity dated December 8, 2003 № 164-FZ. This Law provides for the applicable principles, list of measures which may be imposed, and competence of the governmental bodies in this regard.

### **D. Imports**

#### **I** *Are import licenses required?*

Obligation to obtain import licenses is provided for with respect to the particular types of goods. Generally, the relevant lists include goods which may be used against the interests/safety of the Russian Federation, e.g. environmental destruction, terrorist attacks, etc. Machines and software that employ cryptography, even generic with adapters, require licensing as well.

#### **I** *Are there applicable import duties?*

Import tariff consists of:

- Import Customs Duty
- VAT
- Excise Tax (if applicable)
- Customs “service” Fees

For the brief summary of the applicable duties see Section “*Are there applicable tariffs?*” above.

#### **I** *Are there applicable import quotas?*

Import quotas may be applicable in the form of a special protective measure or tariff quotas. Tariff import quotas currently cover the import of the particular types of the agricultural products.

#### **I** *Are there applicable import barriers?*

The applicable import barriers are imposed with respect to particular goods and, in general, may be divided into the following types:

- Prohibitions on import (e.g. extremist, pornography, and other prohibited materials, weapons)

- Temporary prohibitions (e.g. special economic measures introduced under laws on national security)
- Quantity restrictions on import
- Restrictions associated with the application of special protective, anti-dumping and compensation measures
- Licensing of import (e.g. drugs, toxic agents, pesticides, equipment for covert obtaining of information, dual-use goods)
- Exclusive rights on import
- Sanitary and epidemiological, veterinary, quarantine, phytosanitary, and other similar restrictions
- Measures of technical regulations as to the minimum safety standards of goods
- Registration or notification requirements (e.g. pharmaceuticals, medical products, cryptographic technologies)

### **E. Manufacturing Requirements**

- I** *Must the product contain ingredients or components, which are found or produced only in the country?*

The legislation does not provide for such a requirement. However, in particular cases manufacturing of goods with ingredients or components which are found or produced only in the country may be a ground for the preferences.

- I** *Will the importation of certain component parts be permitted only if they are to be ultimately incorporated in a final product?*

Such requirement may be applicable in exceptional cases, for instance, importation of vehicles components for the purposes of industrial assembly.

### **F. Product Labeling**

- I** *Are there applicable labeling or packaging requirements (e.g. multi-lingual notices, safety warnings, listing of ingredients, etc.)?*

Labeling or packaging requirements are primarily applicable under rules for protection of customers.

For instance, legislation provides for the following labeling requirements:

- Conformity marks labeling in relation to goods which conformity with the technical regulations was duly confirmed;
- Excise or special marks labeling in relation to alcohol and tobacco products;
- Labeling of goods also shall contain certain types of information. For instance, information on nutritional value, warranty periods, expiry or consumption periods, terms and conditions of effective and safe use of goods, disposal instructions. In relation to particular types of goods, e.g. foods products, pharmaceutical and medical products, children's products, legislation provides for additional requirements (e.g. list of ingredients, safety warnings, etc.);
- Labeling must be in the Russian language. Multi-lingual notices are not required.
- Excise goods, e.g. alcohol and tobacco products in order to be placed under the customs procedure of Duty-Free Trade shall be labeled in Russian or English languages with the phrase "For duty free sale only".

Packaging requirements provided generally refer to the safety of the package and the package necessary features of preservation and protection of goods quality while the goods are transported and stored.

## **VII. Structures For Doing Business**

### **A. Governmental Participation**

- Will the government seek to participate in the ownership or operation of the entity (e.g. depending on the type of activity involved)?*

As a matter of a principle, individuals and private legal persons are entitled to establish legal entities at its own convenience as the government generally does not participate in private companies.

Generally government participates in joint-stock companies by means of privatization of state and municipal property through the transfer of shares in these companies to the state or municipal property.

Government participation in new businesses together with private investors is rare.

However, state monopoly is preserved for certain type of activities such as cultivation of narcotic plants for scientific, educational purposes and expert activities, activity in the sphere of military-technical cooperation, testing and stamping with state standard mark the jewelry and other items made of precious metals, etc.

- If so, to what extent?*

The extent of the government's participation varies from 100% to minor interest depending on the type of the entity, industry and other factors.

In certain cases, e.g. in case of privatization of assets of an enterprise, the government possesses a special right for participation in management of joint-stock companies – “a golden share”. This implies the right of the state to appoint a representative to the Board of Directors and the Audit Committee of the company. State representatives in the Board of Directors also participate in general meetings of the shareholders with the right of veto on the most important issues of activities, including: changes in the articles of association, reorganization and liquidation of the company, change in the share capital, major transactions and related party transactions.

- What is the investor's potential liability to partners, investors or others?*

There is no special liability of foreign investors participating in Russian companies' ownership. The liability of a foreign investor depends on the type of an entity, obligations under the contracts made, etc.

For example, generally shareholders are not liable for the debts of joint stock companies as well limited liability companies. By contrast, in partnerships partners are liable for partnership's debts with all their property.

- Are there restrictions on capitalization?*

Restrictions depend on the specific legal form of the entity, see answers to relevant questions in section C below.

**I** *What are the investor's tax consequences? (See also Sections XII and XIII)*

The investor's tax consequences depend on the type of their business, their property and other sources of income in Russia. See comments to the relevant questions in sections below with respect to different types of entities.

**B. Joint Ventures**

**I** *Are joint ventures permitted?*

Yes, joint ventures are permitted by the legislation, though some restrictions and prohibitions are applied to joint ventures in the sphere of Mass Media, insurance, companies of strategic importance for national defense and state security, etc.

**I** *If so, what is the registration or incorporation procedure?*

Joint ventures are incorporated and registered under the same rules as Russian legal entities depending on their legal form (please refer to the sections below).

**I** *How long do these procedures take?*

The duration of registration procedures is similar to that established and described for Russian legal entities (please refer to the sections below).

**I** *What costs and fees are involved?*

Costs and fees are similar to those established and described for Russian legal entities (please refer to the sections below).

**I** *Must a national of the country or a related state, (e.g. the EEC) be a participant, manager or director?*

The legislation does not require the compulsory appointment of nationals (as well as nationals of related states) as managers or directors of joint ventures. The law also does not require that nationals (as well as nationals of related states) should participate in joint ventures established in Russia.

However, appointment of foreign citizens to the position of a manager requires work permits that should be obtained by the legal entities acting as employers for such citizens.

**I** *What is the investor's potential liability?*

Legal regime for foreign investors cannot be less favorable than that for Russian investors. Therefore, the investor's liability is similar to that of Russian legal entities.

**I** *Are there restrictions on capitalization?*

There are no special restrictions on capitalization in respect of joint ventures. Restrictions depend on the specific legal form of the entity, see answers to relevant questions in section C below.

**I** *What are the investor's tax consequences?*

The main taxes for companies with foreign investments are federal taxes (VAT for the goods produced in Russia and excise tax are not paid):

- corporate profit tax
- VAT
- excise tax (depending on the company's activity)
- mineral extraction tax (depending on company's activity);
- water tax (depending on company's activity);
- fees for the use of objects of fauna and for using objects of water biological resources (depending on company's activity), etc.

Companies with foreign investments shall also pay social security charges to state non-budgetary funds.

It should be noted that if a company with foreign investments implements priority investment projects (provided that the goods imported into the Russian Federation are used for their implementation) or if a foreign investor's participation in such a company is more than 25 per cent of the charter capital, any changes to the tax legislation that result in increase of tax burden on a company will not apply during the payback period of the investment project, but not more than seven years from the date of commencement of the financing of the project.

The companies with foreign investments that implement priority investment project are free from customs duties for the import of goods (the list is provided in the Eurasian Economic Union Customs Code).

**C. Limited Liability Companies**

**I** *Are limited liability companies permitted?*

Yes, limited liability companies are permitted by the legislation of the Russian Federation.

**I** *If so, how are they registered or incorporated?*

Limited liability companies are incorporated on the basis of a founders' (or a sole founder's) decision taken at the founders' meeting. The decision should contain voting results of the founders and their decisions on the establishment of the company, corporate name, location and charter capital of the company, approval of the company's Charter, election or appointment of the Company's management bodies as well as formation of the Audit Commission or election of the auditor if this is provided by the company's Charter.

The founders enter into a written agreement on establishment of the company that determines the order of their joint actions on the establishment of the company, the charter capital, the size and the nominal value of the share of each of the founders of the company as well as the size, order and terms of payment of such shares in the charter capital of the company.

The constituent document of the company is the Company's Charter.

The founders form a set of documents which is submitted to the tax authority which performs state registration of a company. The set of documents should include:

- application for state registration of the company;
- decision on incorporation of the company;
- Company's Charter;
- extract from the Trade Register of a respective country (if a founder is a foreign entity);
- document on payment of state fee.

**I** *How long do these procedures take?*

The state registration of a limited liability company is performed within 3 days since the documents required for state registration are submitted to the registration body. In practice, incorporation of a limited liability company, including preparation of necessary documents, takes from 4 to 6 weeks.

**I** *What costs and fees are involved?*

Incorporation of a limited liability company entails the following costs:

- state fee (RUB 4 000 (appr. USD 70));
- notary's fee for the certification of the signatures on the application (RUB 200 (appr. USD 3 per shareholder));
- fee for apostil on Extract from the Trade Register of a respective foreign country;
- mail costs (unless the documents are submitted in person / by electronic means);
- consultants' fees (optional).

Each founder of the company must pay its full share in the charter capital of the company within the period defined by the agreement on the establishment of the company or in the case of formation of a company by a sole founder – by the sole founder's decision on the establishment of the company. The term of such payment may not exceed 4 months since the date of state registration. The charter capital should be no less than RUB 10 000 (appr. USD 180)).

**I** *Must a national of the country or a related state be a participant, manager or director?*

No. See comment to the relevant question in point B above.

**I** *Are there restrictions on capitalization?*

Only certain types of property may be used in order to make contribution to the charter capital or assets of limited liability company: money, goods, shares, government and municipal bonds, IP rights. Moreover, minimum charter capital shall be paid in monetary form.

**I** *What are the investor's tax consequences?*

The limited liability companies may apply one of two regimes of taxation: traditional and simplified. The company may transfer to simplified taxation in case the income after 9 months of the year when the company applies for transfer to the simplified taxation does not exceed RUB 112 500 000 (appr. USD 1,9 mln.). There is also a threshold with respect to the residual value of assets of the company (currently – no more than RUB 150 mln., appr. USD 2,5 mln.). Foreign companies and companies with other entities' participation more than 25 per cent are prohibited to apply simplified taxation.

The main taxes for limited liability companies which apply traditional taxation are:

- corporate income tax;
- VAT;
- other taxes (if the respective objects of taxation are applied): transport tax, land tax, excise tax, water tax; fees for the use of objects of fauna and for using objects of water biological resources; mineral extraction tax; gambling tax.

The main taxes for limited liability companies which apply simplified taxation are:

- unified tax applied for simplified taxation;
- VAT (in several cases prescribed by the law);
- other taxes (if the respective objects of taxation are applied): transport tax, land tax, excise tax, water tax; fees for the use of objects of fauna and for using objects of water biological resources; mineral extraction tax.

See also comment to the relevant question in point B above.

#### **D. Liability Companies, Unlimited**

**I** *What are the forms of liability companies?*

There are no forms of liability companies prescribed by the legislation of the Russian Federation.

**I** *How are these companies registered or incorporated?*

N/A

**I** *How long do these procedures take?*

N/A

**I** *What costs and fees are involved?*

N/A

**I** *Must a national of the country be a participant, manager or director?*

N/A

**E. Partnerships, General or Limited**

- Are partnerships recognized or permitted?*

The legislation allows establishment of two types of partnership: full partnership and limited partnership (commandite).

- Must a national of the country or related state be a partner?*

No.

- If so, to what extent?*

N/A

- What costs and fees are involved?*

See comment to the relevant question in point C above.

- What is the investor's potential liability?*

The partnership is responsible for its obligations with all its property. If the partnership's property is insufficient, creditors' claims to a partnership may be satisfied from the property of a full partner.

- What are the investor's tax consequences?*

See comment to the respective question in point C above.

**F. Partnerships, Undisclosed**

- Do undisclosed partnerships exist?*

No, the legislation does not prescribe for establishment of undisclosed partnership as separate legal person.

- If so, how are they formed?*

N/A

- What costs and fees are involved?*

N/A

- Must a national of the country or a related state be a participant, manager or director?*

N/A

**I** *What is the investor's potential liability?*

N/A

**I** *What are the investor's tax consequences?*

N/A

**G. Sole Proprietorships**

**I** *Can the investor be a sole proprietor?*

An individual can do business in Russia in the capacity of a private entrepreneur (without incorporation of a legal entity). In this case he / she needs to apply to the state authorities for his / her registration as a private entrepreneur.

**I** *How is the sole proprietorship registered or established?*

The procedure for registration as a private entrepreneur includes preparation of set of documents required (for foreign citizens the documents issued by foreign bodies should be duly apostilled and translated into Russian), payment of state fee and submission to the tax authorities. After registration is completed a private entrepreneur gets its seal, activates its bank account and may start operations.

It should be noted that for foreign citizens documents confirming their right of residence in Russia and documents confirming his/her place of residence in Russia (if the first does not include) should be submitted.

**I** *How long does this process take?*

The state registration of a private entrepreneur is performed within 3 days since the documents required for state registration are submitted to the registration body. In practice the whole process of registration as a private entrepreneur, including preparation of necessary documents, takes from 2 to 4 weeks.

**I** *What costs and fees are involved?*

Registration of a private entrepreneur entails the following costs:

- state fee (RUB 800 (appr. USD 15));
- notary's fee for the certification of the documents;
- fee for apostil on documents issued by bodies of a respective foreign country;
- mail costs (unless the documents are submitted in person / by electronic means);
- consultants' fees (optional).

**I** *What is the investor's potential liability?*

Private entrepreneur bears full liability with all of his/her assets.

**I** *Are there restrictions on capitalization?*

Generally there are no restrictions on the capitalization of the sole proprietors.

**I** *What are the investor's tax consequences?*

The private entrepreneur may apply one of two regimes of taxation: ordinary and simplified. No limits are set for transfer to simplified taxation for private entrepreneurs. Usually private entrepreneurs apply for a transfer to simplified taxation together with application for registration as a private entrepreneur.

The main taxes for private entrepreneurs which apply ordinary taxation are:

- VAT;
- other taxes (if a respective object of taxation is applied): personal income tax, personal property tax, transport tax, land tax, excise tax, fees for the use of objects of fauna and for using objects of water biological resources, water tax, mineral extraction tax.

The main taxes for private entrepreneurs which apply simplified taxation are:

- Unified tax for simplified taxation (6% or 15%), which replace other taxes;
- VAT (just in several cases prescribed by the law);
- other taxes (if a respective object of taxation is applied and just in several cases prescribed by the law): personal income tax, personal property tax, transport tax, land tax, excise tax, fees for the use of objects of fauna and for using objects of water biological resources, water tax, mineral extraction tax.

## **H. Subsidiaries/Branches/Representative Offices**

**I** *Can the investor establish a branch, subsidiary or representative office?*

Yes, the investor can establish a branch, subsidiary or representative office.

**I** *If so, how long does registration or incorporation take?*

Establishment of a branch or a representative office by a foreign investor requires state accreditation provided by the respective state body. The term for accreditation is set as no more than 25 working days since the documents required are submitted to the respective accreditation body. In practice entire accreditation process, including preparation of necessary documents, takes from 4 to 6 weeks.

As for the establishment of a subsidiary, please refer to above sections for the term for the establishment of a legal entity.

**I** *What costs and fees are involved?*

The costs of the establishment of a branch or a representative office by a foreign investor include:

- state duty for accreditation – RUB 120 000 (appr. USD 2 100);
- notary's fees;

- fee for apostil on documents issued by bodies of a respective foreign country;
- mail costs (unless the documents are submitted in person / by electronic means);
- consultants' fees (optional).

As for the costs of establishing a subsidiary, please refer above for the costs of establishing a legal entity.

### **I** *What is the investor's potential liability?*

Since a representative office / a branch are not separate legal entities, but structural subdivisions of a legal entity, the liability for their obligations and activities will be on the legal entity. Accordingly, the investor's liability will depend on regulations applicable to the company establishing the branch.

With respect to a subsidiary, the extent of the investor's liability will be defined by the specific type of the subsidiary. Please refer to the above sections for more details.

### **I** *Must a national of the country be a participant, manager or director?*

There are no restrictions as to nationals/foreigners being managers or directors of a representative office or a branch; similarly, there are no restrictions as to being a participant, manager or director of a subsidiary.

However, employment of a foreign national with a branch/representative office/subsidiary is only possible based on the work permit.

### **I** *Are there restrictions on capitalization?*

There are no special restrictions on capitalization of branches and representative offices.

As for capitalization of subsidiaries, please refer to the Sections above devoted to the particular types of legal entities.

### **I** *What are the investor's tax consequences?*

Subsidiaries of foreign companies are subject to taxation with regard to their economic activity, income sources and property in Russia. Please refer above for taxation of a legal entity.

With regard to taxation of a branch / representative office certain specifics exist.

The legislation provides that a regular business activity of a foreign investor in Russia through a branch / representative office is considered as activity performed through a permanent establishment (i.e., fixed place of business involved on regular commercial activities) of a foreign company in Russia, if the activity relates to:

- using of natural resources;
- constructing, installation, mounting, erection, calibrating and operation of equipment under the contracts;
- selling the goods based in their own or leased stocks in Russia;
- perform works, services and other activities, other than preparatory and auxiliary activities.

The object for taxation in case of permanent establishment are:

- income received by a foreign company as a result of activity in Russia through its permanent establishment reduced by the amount of its expenses;
- income received by a foreign company from the ownership, use and (or) disposal of the property of a permanent establishment reduced by costs associated with obtaining such income;
- income from other sources in Russia (i.e. dividends, income from IP assets, sale of shares etc.).

The Tax Code prescribes a long list of income types which are subject to taxation in case activity of a foreign investor in Russia through a branch / representative office is not recognized as activity performed through a permanent establishment.

**I** *Are these tax consequences different than those of a local company?*

The aforementioned specifics applied to taxation of a branch / representative office depending on whether activity of a foreign company is recognized as operation through a permanent establishment is applicable to foreign companies only. Therefore, with respect to branches / representative offices a foreign investor's tax consequences are different than those of a local company.

**I. Trusts and other Fiduciary Entities**

**I** *Are trusts or other fiduciary entities recognized?*

No, the legislation does not prescribe for establishment of trust.

**I** *If so, how are each defined?*

N/A

**I** *What are the legal consequences of a transfer of assets to a trust or fiduciary?*

N/A

**I** *Can the investor be the grantor, trustee or beneficiary?*

N/A

**VIII. Requirements For The Establishment Of A Business**

**A. Alien Business Law**

**I** *Is the business subject to any alien business law?*

There is a the Federal Law On Foreign Investments in the Russian Federation dated July 9, 1999 № 160-FZ that establishes general guarantees for foreign investors. In particular, this Federal Law provides that laws applicable to foreign investors shall not be less favourable than those applicable to nationals.

**I** *Are there registrations or reporting requirements?*

Establishment of a business requires incorporation of a legal entity by the investor in accordance with the standard registration procedure (see Section VI above) or accreditation of branch / representative office of a foreign legal entity. Either the investor can become a shareholder of an existing legal entity. Subsequently, membership change or changes to the entity's registered location, name, etc. must be registered and must be reported to the registration body. There are various requirements with respect to disclosure of information by different types of companies in Russia, filing of accounting statements to a tax body and etc., though there are no special reporting requirements for foreign investors.

**B. Antitrust Laws**

**I** *Do the entity's operations comply with anti-trust laws?*

Yes, the Federal Law On Protection of Competition (dated July 26, 2006 № 135-FZ) extends to relations associated with the protection of competition, including the prevention and suppression of monopolistic activity and unfair competition that involve Russian and foreign legal entities, natural persons, including individual entrepreneurs, etc.

**I** *Are there filing requirements?*

Certain transactions require obtaining of an approval of the Federal Antimonopoly Service. Such transactions and their specific conditions are described in detail and the extensive list of them is provided by the aforementioned the Federal Law On Protection of Competition, e.g. merger of commercial legal entities in case their combined assets exceed RUB 7 000 000 000 (approx. USD 125 000 000).

The Federal Antimonopoly Service shall take a decision on approval of a transaction within 30 days since the application and required documents are submitted.

**C. Environmental Regulations**

**I** *Is the business of the investor subject to environmental regulation?*

All business entities are subject to environmental regulation.

**I** *If so, are there added costs involved (e.g. audit requirements)?*

Certain categories of legal entities and individual entrepreneurs (i.e. those which perform activities having negative influence on the environment or which perform activities on waste disposal) must make payments for the certain kinds of negative impact on the environment.

Also when a company's activity includes implementing projects that require holding environmental audit, expenses related to it are borne by the company.

**D. Government Approvals**

**I** *Are government approvals required for the anticipated business?*

- I** *If so, how long does this process take?*
- I** *What fees are involved?*

Performing certain types of activities by the companies / individual entrepreneurs require obtaining a license / permit from the state. Please refer to section F. for information on licenses / permits.

## **E. Insurance**

- I** *Must the enterprise carry insurance?*

The enterprise must carry insurance in cases provided by the law.

- I** *If so, what kind of risks must be insured?*

There are various types of mandatory insurance (each of them is regulated by a federal law) including but not limited to the following:

- temporary disability of employees;
- accidents in the work place and professional diseases;
- unemployment;
- liability of carrier concerning inflicting harm to life, health and property of passengers;
- source of increased danger owner liability insurance;
- liability of automobile owner.

- I** *Is there a state monopoly on insurance?*

No, there is no state monopoly on insurance, though insurance activity is subject to licensing.

## **F. Licenses/Permits**

- I** *Are licenses or permits required for the anticipated activity?*

The legislation provides for exhaustive list of activities that require obtaining a license and/or permit, e.g. gambling activity, banking and insurance activity, alcohol sales activity, etc.

- I** *If so, how does the investor apply for and receive the necessary license or permit?*

To obtain a license for certain activity, a company should apply to the relevant state authority and provide the required set of documents and information, including those confirming the compliance of the applicant with licensing terms provided for the respective activity. Normally, issuance of a license also requires a fee to be paid by the applicant. Amount of a fee depends on the type of anticipated activity.

- I** *How long does it take to receive the license or permit?*

The licensing body shall take a decision on issuance of a license or refusal to issue a license within 45 working days since the date when the respective application and required documents are submitted to the licensing body.

## **IX. Operation Of The Business**

### **A. Advertising**

#### **I** *Are there restrictions on advertising?*

There are several requirements to advertising in Russia. It shall be fair and truthful. For example, an advertisement is deemed unfair if it contains incorrect comparison of goods advertised with goods of another manufacturer or seller or denigrates business reputation of a competitor.

Moreover, there is an exhaustive list of specific restrictions, e.g., it is prohibited:

- to use foreign words and expressions that can lead to distortion of information;
- to show process of smoking or consumption of an alcoholic product;
- to use images of medical and pharmaceutical personnel, except for advertisement of medical services, etc.

There is also a list of goods that are prohibited to be advertised (e.g., tobacco).

### **B. Attorneys**

#### **I** *Is it necessary to have local counsel?*

Russian law does not require compulsory engagement of local counsel.

#### **I** *How can local counsel be found?*

Local counsels can be found through different national and international internet databases, e.g. Lex Mundi.

#### **I** *How much are attorneys fees?*

There are no unified fees. The amount of fees depends on a rank of law firm, lawyers and case complexity.

### **C. Bookkeeping Requirements**

#### **I** *Must the investor keep local books of accounts?*

#### **I** *In what form must the investor keep accounts (e.g. GAP, in what language, etc.)?*

Local books of accounts shall be kept by commercial and non-commercial entities, individual entrepreneurs, private practitioners, branches and representative offices of entities registered under the laws of foreign countries and located in the Russian Federation. Simplified system of accounting may be applicable depending on the chosen form of business activity. As a general rule, bookkeeping requirements are based on national fed-

eral and industrial standards which are developed in accordance with the international ones. Usually, company shall keep, *inter alia*, primary accounting records and internal accounting ledgers, maintain records on incomes and expenses, provide for asset and liability recognition, and then, following the end of the report period, file interim and annual financial statements.

Additionally, financing and insurance companies, management companies of investments funds, mutual funds, non-governmental pension funds, clearing corporations, and some other entities shall comply with the requirements on consolidated book-keeping which is carried out in accordance with international financial reporting standards implemented by the RF Ministry of Finance Decrees.

#### **D. Business Ethics/Codes**

- 1 Are there certain business ethics or codes, which the investor must follow (e.g. GAAP for accountants, etc.)?*

There are no business / ethic codes, which the investor must follow under Russian law. However, such obligation potentially might be set in corporation's by-laws or internal policy.

#### **E. Consumer Protection Laws**

- 1 Are there consumer protection laws, which apply to the investor's operations?*

Consumer protection is primarily regulated by the Law of the Russian Federation dated February 7, 1992 № 2300-1 On the Protection of the Consumer Rights (hereinafter – “Consumer Protection Law”) and the Civil Code.

Basically, Consumer Protection Law establishes liability of a manufacturer and/or seller for:

##### **Poor quality of products, works and services**

Generally, upon discovery of defects, the consumer on his choice has a right to demand: (1) free elimination of defects or indemnification for expenses incurred to eliminate the defects; (2) proportional reduction of the price; (3) replacement of the product (with that of similar brand/model/type or another but with corresponding recalculation of the purchase price); (4) cancellation of the contract (in this case the consumer must return the defective product).

The consumer may submit a claim if the defect was found within warranty period. If warranty period for the product is not set or set period is less than two years, the consumer may submit a claim within two years from the date of delivery of the product to the consumer.

##### **Inadequate (incorrect or incomplete) information on products, works and services**

In case of incorrect or incomplete information with regard to the product, work or service, the consumer has a right to demand cancellation of the contract.

##### **Damages caused by defective products, works and services**

Claim for damage caused by defective products, works and services can be submitted generally in case the damage is caused during the service life of the product or if the service period is not set, during ten years.

## **F. Construction**

### **I** *What are the costs of construction?*

Costs of construction depend upon the project and its complexity. Costs include value of works and materials, salaries paid to employees, operational costs, etc.

### **I** *Are permits required for construction?*

Yes, a construction permit is required. However, the legislation provides several exceptions from this rule when a construction permit is not required, for example in case of capital repairs of real estate objects.

Prior to obtaining the permit developer shall pass several stages.

#### **Stage 1: Land plot acquisition**

Land plot can be acquired on the open private market or from the public lands. In general state land plots may be purchased/leased through auction procedure.

#### **Stage 2: Preparation of project documentation (project)**

Project is a complex of special documents in accordance with which planned building will be constructed further. Preparation of these papers shall be carried out by specially admitted entities.

#### **Stage 3: Expertise of the project documentation**

The project documentation should be submitted to a state or non-governmental expert examination. In several cases it is required to carry out state expert examination (e.g. reconstruction of cultural heritage objects, construction of waste neutralization objects, etc).

The term of carrying out the state expert examination depends upon complexity of the project, but may not exceed 60 days. Term of non-governmental expertise is not stipulated by law.

### **I** *How is authorization to construct obtained?*

Construction permit shall be issued by a local governmental body at the location of the land plot. Developer shall submit an application for issuance of a construction permit either directly to the authorized state (municipal) body or to a multifunctional center. A set of documents shall be attached to the application, in particular:

- documents confirming title to the land plot;
- town-planning layout of the land plot;
- project;
- positive opinion of an expert on the project documentation.

**I** *How long does it take to receive authorization?*

An official term for granting a construction permit is 10 days. This term is often extended due to requests for amendments to be made to the documents and additional documents to be provided. In practice obtaining the permit may take several months.

Besides, applying for a construction permit presumes that the necessary documents are ready (including project documentation). However, these preliminary arrangements are very time-consuming. Taking all this into account, an approximate term for obtaining a construction permit (including the preliminary stages) is around one year, depending on the details of the project.

**I** *What fees are involved?*

No fee for granting the construction permit is to be paid.

The fee for the state expertise of the project documentation depends on the perimeter of the land plot and the construction unit, the complexity of the project documentation and various other criteria. These are provided by the formula given in the Decree of the Government dated March 5, 2007 № 145 On the Order and Execution of the State Expertise of Project Documentation and Results of Engineering Survey.

**G. Contracts**

**I** *Can the investor freely enter into local contracts?*

According to the Civil Code a foreign investor can freely enter into local contracts unless otherwise provided by federal law. For instance, foreign investors are not allowed to enter in private-public partnership (PPP) contracts, acquire land plots located on the border territories or boundaries of seaports.

**I** *Can the law of another country govern the contracts?*

The parties to the contract can choose foreign law as governing law of the contract with a foreign element (e.g. if at least one of the parties is foreign legal entity or object of the contract is located outside of the Russian Federation).

However, foreign law shall not be applicable in exceptional cases when consequences of its application obviously conflicts with the fundamentals of law and order (public order) of the Russian Federation.

**H. Price Controls**

**I** *Are there applicable price controls?*

Free pricing is the general principle, nevertheless the Government is allowed to exercise price control in relation to certain types of goods and services, in particular goods and services provided by monopolists (energy sources, rail transport services, transportation facilities services) and goods and services of major social significance (essential drugs and food products). The price control is mainly exercised by means of fixed prices, threshold prices or other prescribed methods of price formation.

## **I. Product Registration**

- I** *Must the entity register its product?*
- I** *If so, how is registration obtained?*
- I** *How long does the process take?*
- I** *Are there fees involved?*

Registration process shall be carried out in case entity intends to:

- implement new potentially harmful chemical and biological agents in the manufacturing process;
- put on the market a product posing potential health risks for consumers;
- put on the market certain types of products including foodstuffs.

Thus, only several types of goods are subject to registration, e.g. pharmaceuticals, medical products, foodstuffs, GM-products, household cleaning products, hygiene products, and other similar goods.

The product type also determines the specifics of the registration process, e.g. a particular governmental body competent to register the product, applicable requirements, timing, fees, etc.

For instance, a special registration regime applies to pharmaceuticals. The registration is to be carried out by the Ministry of Health within 160 business days and necessarily implies relevant expertise. Pharmaceuticals registration fees generally include fees for conducting quality and expected benefits/potential risk examinations necessary for registration (RUB 325 000 (approx. USD 5 400)), issuing of registration certificate (RUB 10 000 (approx. USD 160)), confirmation of registration for newly registered pharmaceuticals upon expiration of 5-years period (RUB 145 000 (approx. USD 2 400)). The Ministry of Health is also responsible for registration of bio-medical cell products. Time limits for biomedical cell products registration are set within 150-250 business days. Applicant shall pay RUB 50 000 (approx. USD 800) or 200 000 (approx. USD 3 300) for quality and expected benefits/potential risk examinations necessary for registration, RUB 5 000 (approx. USD 80) for issuing the registration certificate, RUB 50 000 (approx. USD 800) for further confirmation of registration.

Registration of medical products takes about 50 business days and includes expertise as well. Applicant shall pay fees for conducting expertise (depend on class of medical product and start from RUB 45 000 (approx. USD 750)) and issuing registration certificate (RUB 7 000 (approx. USD 100)). Registration agency is the Federal Service for Surveillance in Healthcare (Roszdravnadzor).

The Federal Service for Surveillance on Consumer Rights Protection and Human Wellbeing (Rospotrebnadzor) provides for registration of other products posing potential health risks. Prescribed time limits to complete the registration is 7 business days. In order to register product applicant shall pay fees amounting to RUB 5 000 (approx. USD 80).

Generally, registration process is carried out based on application accompanied by a bundle of manufacturing/technical documents on product, clinical trials and safety reports, etc.

In particular cases assessment of goods conformity to technical regulations in the form of certification or declaration of conformity shall precede product registration.

## **J. Reductions or Return on Capital**

### **I** *Can capital be repatriated while the corporation is still ongoing?*

The legislation provides for the possibility of repatriation of capital while the corporation is still ongoing by means of special corporate procedures. Direct repatriation of capital occurs through payment of dividends. Russia operates an investor-friendly regime: foreign investors may transfer funds abroad (income) received from their investments in Russia after payment of the applicable taxes and compliance with the relevant currency control formalities.

In addition, a foreign investor may repatriate capital by means of exit from the LLC, provided that (1) such right to exit is stated in the company's charter, (2) other participant(-s) remain in the company. In case of exit, the leaving participant shall be paid the actual value of the share.

## **K. Sale of Goods**

### **I** *Are there restrictions on the manner, time or place of sale of goods?*

There are, for example, certain age and other types of restrictions on the sale of such goods as tobacco, alcohol, weapons, drugs and certain other potentially hazardous goods.

Specific requirements are provided in respect of qualification of salesmen and premises where the alcohol products are being sold. For instance, the retail sale of alcohol products is prohibited at children's, educational and medical organizations, at sports facilities, and on the territories adjoining them.

Sale of certain goods, including alcohol, tobacco, weapons, drugs is subject to licensing.

It is prohibited to carry out the retail sale of alcohol products from 23:00 to 8:00 hours local time (unless other restrictions are provided by regional legislation), with the exception of the retail sale of alcohol products in particular by catering organizations and duty-free shops.

## **L. Trade Associations**

### **I** *Are there trade associations the investor can or must join?*

As a general rule, legal entity can freely join any non-commercial association for the purposes of coordination and representation common interests. At the same time Russian law does not require compulsory participation in trade associations.

Chamber of Commerce of the Russian Federation and Industry as well local chambers actively cooperate local governmental bodies, support partnership with foreign chambers of commerce, etc.

At Russian CCI the leading arbitration in Russia and in East European countries - the International Commercial Arbitration Court - is functioning.

**I** *If so, are there fees involved?*

Generally, there are two types of fees to be paid: admission fees and membership dues. An amount of these fees is not provided by special legal acts - it is set by the trade organization itself.

**I** *Are there mandatory trade practices?*

According to the Civil Code if some rules of behavior has been widely applied in trading and these rules do not contradict to the legislation or to the agreement of the parties the court may apply trade practice (customs). However, the courts recognize such trace practices rather seldom.

## **X. Cessation Or Termination Of Business**

### **A. Termination**

**I** *What are the tax consequences of terminating the business?*

The obligation to pay taxes and fees (interest, fines) should be fulfilled by the liquidation commission of a company in liquidation from its funds, including proceeds from the sale of its assets.

Should the funds of an organization in liquidation, including proceeds from the sale of its assets for the purpose of fulfilling an obligation to pay taxes and fees, due penalties and fines be insufficient for full discharge of such obligation, the bankruptcy proceedings may be initiated by the tax authorities. Within such proceedings in certain cases founders (participants) of legal entity may be obliged to pay its outstanding debts.

If an organization being liquidated has to its credit excessively paid or excessively collected taxes or fees (penalties and fines), the said sums of money shall be offset by a tax body on account of the repayment of arrears of the liquidated organization in respect of taxes, fees and debts.

**I** *What costs are involved in termination?*

Termination of business by means of liquidation entails the following costs:

- state fee (RUB 800 (appr. USD 15))
- costs of official publication and written notifications to all creditors of the company on the termination of its business;
- notary's fee for the certification of liquidation documents;
- mail costs (unless documents are submitted in person / by electronic means);
- consultants' fees (optional);
- liquidator's fees (optional).

**I** *How long does it take to terminate the business?*

Liquidation of a company in practice takes about 6 months. The first step of the termination of a business is making a decision on liquidation and appointment of a liquidation commission, which should be done by the

shareholders. Following that, the legal entity should notify the tax authorities of its liquidation during 3 days of the decision having been made.

The liquidation commission should publish an advertisement concerning the company's liquidation in a mass communication as well as notify creditors of liquidation. After the time of presentation of creditors claims (min. 2 months), the liquidation commission drafts an interim liquidation balance sheet and notifies the tax authorities accordingly.

After the settlement with the creditors, the liquidation commission drafts a final liquidation balance sheet and applies for exclusion from the Unified State Register of Legal Entities.

### **I** *How is the investor's particular form of business treated in termination?*

In general the investor's particular form of business is not taken into account at the termination stage, as there are unified rules for termination of all commercial legal entities.

### **I** *Can the business be terminated without government approval or intervention?*

Generally, a business can be terminated without government approval or intervention – based on the decision of its owners (shareholders). However, the termination procedure always involves close interaction with different state authorities (state registrars, tax authorities, etc.).

### **I** *What are the obligations toward creditors, employees and others upon termination?*

When a legal entity is being liquidated claims of its creditors shall be satisfied in the following order of priority:

- claims of natural persons where the liquidated legal entity is liable for harm to life or health by means of capitalizing relevant time-based payments as well as some claims connected with damage caused during construction works;
- settlements, involved in the payment of retirement allowances and the remuneration for the labor of persons who work or who have been working under a labor contract, and also those involved in the payment of fees to the authors of the results of intellectual activity;
- settlements of accounts for compulsory payments owing a budget or a non-budget fund;
- settlements of accounts with other creditors.

Secured creditors have priority over unsecured ones (except those creditors of first and second ranks whose claims arose before obtaining the security).

## **B. Insolvency/Bankruptcy**

### **I** *What is the extent of the investor's liability in the event of insolvency or bankruptcy?*

The investor's liability depends on the type of company (refer to the sections above). It also should be noted that if a company is recognized as insolvent (bankrupt) due to the action and (or) the omission of control of the entities/persons that control the debtor, such persons in case of insufficiency of the debtor's property, shall bear secondary liability for its obligations.

**I** *What choices, if any, are available to the investor with regard to the restructuring of the business?*

There are two special procedures within bankruptcy proceedings available for restructuring of debts: financial rehabilitation and external administration during which measures may be taken in order to improve the financial state of the debtor and pay its debts.

Creditors also may reach an amicable agreement with its debtor.

## **XI. Labor Legislation, Relation, And Supply**

### **A. Employer/Employee Relations**

**I** *What laws govern employer/employee relations?*

The Labor Code governs relations between employers and employees in such areas as:

- Social partnership which includes sections regarding representatives of employers and employees, committees Employment contracts, their obligatory and optional provisions, termination, liability, etc.;
- Working time and leisure;
- Compensations and others.
- on governing social-employment relations, collective bargaining;

Besides, there are Conventions of International Labour Organization, federal laws, regulations, collective agreements and internal rules of employers which govern labor relations.

**I** *Are there obligations to train employees?*

According to the Labor Code employers are to train employees in relation to labor safety rules. Generally there are no stated obligations for the employer to provide the employee with professional trainings, except for employees in certain spheres in which the professional development is obligatory, such as: prosecutors, judges, police officers, drivers, medical employees, teachers and a few other professions.

### **B. Employment Regulations**

**I** *Must the investor hire nationals of the country?*

Generally the investor is free to hire nationals or foreigners. However, it is necessary to take into account the regulations regarding hiring foreign citizens (please see Section XVII) and the possibility of migration authorities to refuse issuing permits in the event where Russian employees which meet the requirements provided by the employer are available; as a rule Russian citizens have the preemptive right to be employed.

**I** *Is there a minimum wage?*

The minimum monthly wage is guaranteed to the employee. From July 1, 2017 its amount was stated as RUB 7800.00 (approximately USD 130). The federal subjects of Russia are entitled to increase this amount, e.g. in Saint Petersburg from January 1, 2017 the minimum wage was stated as RUB 16,000.00 (approximately USD 260), in Moscow – RUB 17,642 (approx. USD 290) from July 1, 2017.

**I** *Is there a maximum number of hours an employee can work each week?*

The maximum number of hours the employee can work per week is 40. In the event the employee works based on the summarized accounting of working time, he/she may work more than 40 hours per week, but the summarized working time per the accounting period shall not exceed the summarized working time calculated based on 40 hours per week.

For particular employees the reduced number of working hours is stated: for employees under 16 years – 24 hours per week, for employees from 16-18 years – 35 hours per week, for employees who perform unhealthy or dangerous work – 36 hours per week, etc.

Overtime work is permitted only based on regulations stated in the Labor Code and cannot exceed 4 hours within two consecutive days and 120 hours per year.

**I** *Is there a minimum number of vacation and sick days to be given?*

As a general rule the employee is entitled to the annual vacation of 28 calendar days. For particular employees additional annual vacation is provided, e.g. for employees who perform unhealthy or dangerous work – at least 7 calendar days, etc.

There is no minimum number of sick days to be given. The employee is entitled to be absent at work within the whole period of his/her sickness up to the moment of his/her recovery.

**C. Hiring and Firing Requirements**

**I** *Must the investor employ a minimum number of people?*

The legislation law does not specify a minimum number of people to be employed by the investor.

**I** *Must the investor employ a minimum number of nationals?*

There is no minimum number of nationals to be employed by the investor, but it is necessary to take into account the requirements provided for employment of foreign citizens (please see Section XVII).

**I** *Must nationals hold certain positions in the company?*

There are no stated restrictions for foreign citizens to hold certain positions in the company except cases specified in Russian legislation; this refers, e.g., to patent attorneys, private detectives, etc.

**I** *Are there rules to follow in hiring/dismissing personnel (e.g. notice)?*

The procedures of hiring/dismissing personnel are governed by the Labor Code and employers/employees must follow them in detail. The procedure of dismissing the employee depends on grounds for his/her termination.

**I** *Does the investor have a continuing obligation towards dismissed employees?*

Generally the investor does not have a continuing obligation towards dismissed employees, except cases of termination based on the liquidation or redundancy, in these events severance payments are to be paid to dismissed employees. In the event termination took place based on mutual agreement, the latter may have provisions regarding a continuing obligation towards the dismissed employee.

#### **D. Labor Availability**

- Is adequate skilled or unskilled labor available for the anticipated business?*

Generally this depends on the region, in industrial areas skilled and unskilled employees are available for the anticipated business.

#### **E. Labor Permits**

- Are labor permits required?*

As a general rule, the employer who intends to employ foreign employees must obtain a permit for a company to hire foreign employees. The foreign citizen is entitled to work in Russia only based on the individual work permit. For more details please see Section XVII (J).

- If so, how are they obtained?*

Please see Section XVII (J).

- How long does the process take?*

Please see Section XVII (J).

- What fees are involved?*

Please see Section XVII (J).

#### **F. Safety Standards**

- Are there safety codes that must be followed?*

Basic provisions regarding safety rules are stipulated in the Labor Code. The Safety Standards, safety regulations and procedures, state sanitary and epidemiological regulations provide the requirements to be followed by employers.

#### **G. Unions**

- Are unions recognized?*

Trade unions are recognized and act based on the Federal Law On Trade Unions, Their Rights and Guarantees of Their Activity. The law does not require to have a trade union in a legal entity. Trade unions become powerful only when they unify more than 50% of employees.

**I** *What are the unions in the investor's business?*

Trade unions act on different levels starting from primary trade unions (on the company's level) to all-Russian level, they may establish associations depending on economic sector, territory etc. E.g. the Russian Trade Union of Mechanics includes 45 territorial and 663 primary trade unions and consists of more than 330,000 employees of the heavy engineering industry, chemical, oil and other mechanical engineering.

**I** *What are these unions' political affiliations, if any?*

Trade unions act independently but they are powerful and have strong relations with the Ministry of Labour and the State Duma. Recent changes in employment law shows that trade unions successfully promote their legislative initiatives.

**I** *Is there an obligation on the part of the employer to organize unions?*

The employer is not obliged to organize trade unions.

**I** *Are there mandatory collective bargaining agreements for the business involved?*

Both the employer and employees are entitled to start negotiations on conclusion/amending the collective bargaining agreements, but there is no stated obligation. The procedure of such negotiations and conclusion of collective bargaining agreements is strictly regulated by the Labor Code and in the event of failure the administrative liability can be imposed on the party who committed an infringement.

## **XII. Tax On Corporations**

### **A. Allowances**

**I** *What are the major allowances (e.g. capital cost depreciation) and deductible items?*

The Tax Code (the RTC) stipulates that the following major expenses may be deducted for tax purposes:

- Depreciation (including bonus depreciation in some cases) and amortization;
- Expenses on materials;
- Payroll expenses;
- Research & development;
- Interest expenses;
- Foreign exchange
- Royalty expenses;
- Bad debt expenses;
- Fines and penalties; etc.

**I** *What are the major expenses that are excluded from deductibility?*

The following expenses among others are excluded from deductibility:

- Dividends;
- Advance payments (i.e. prepayments);
- Contributions to the charter capital of other companies; etc.

It should also be mentioned that deductibility of some types of expenses may be limited due to special provisions of the RTC such as transfer pricing rules, thin capitalization rules, unjustified tax benefit concept etc. In addition, some types of expenses are subject to limitations (e.g. advertising expenses, entertainment expenses, etc.)

## **B. Calculation of Taxes**

### **I** *How is the taxable base determined?*

Taxable base is the profit determined by reducing taxable income by deductible expenses.

## **C. Capital Gains**

### **I** *What are the federal or national tax rates on capital gains?*

Capital gains are generally included in taxable base and are taxed at 20% (3% payable to the federal budget and 17% - to the regional budget).

### **I** *What are the regional or state taxes on capital gains?*

N/A

### **I** *What are the municipal or local taxes on capital gains?*

N/A

## **D. Filing and Payment Requirements**

### **I** *When must the corporation file its tax return, if any?*

Corporations should file their annual tax returns till March, 28 of the year following the tax period. As corporate income tax is paid in instalments corporations should also file tax returns after each reporting period (monthly or quarterly) within 28 calendar days.

### **I** *When must the corporation pay its taxes?*

Taxes should be paid not later than the submission of annual tax returns and tax returns after each reporting period.

### **I** *Are taxes paid in installments or annually?*

Taxed are paid in instalments while the final payment should be made after the tax period (with the annual tax return being filed) taking into account all instalment payments made.

**E. Miscellaneous Taxes Due**

**I** *Is there a tax on capital?*

N/A

**I** *Is there a business license tax?*

N/A (instead there may be some state duties)

**I** *Is there an apprenticeship tax?*

N/A

**I** *Is there a training tax?*

N/A

**I** *Are there other taxes?*

There are also the following taxes which depending on the circumstances should be paid by corporations:

- Value added tax;
- Excise duties;
- Levies for the use of fauna and for the use of aquatic biological resources;
- Water tax;
- State duty;
- Mineral extraction tax;
- Transport tax;
- Gambling tax;
- Corporate assets' tax;
- Land tax.

Depending on the type of activity performed and/or category of the taxpayers five types of special tax regimes may apply: single agriculture tax, simplified system of taxation, single tax on imputed income from certain kinds of activity, taxation of production sharing agreements, the patent system of taxation. Special tax regimes may provide exemptions from certain federal, regional, and local taxes.

**F. Registration Duties**

**I** *Are there registration duties due upon the incorporation of a company?*

Yes. Generally, it amounts to RUB 4 000 (approx. USD 70).

**I** *Are there registration duties due upon an increase in capital?*

Yes. As increase of charter capital requires changes in the charter documents of a corporation, such changes shall be registered and, consequently, registration duty shall be paid. Generally, it amounts to 1/5 of the registration duty upon the incorporation of a company (see above).

**I** *Are there registration duties due upon the transfer of the company's shares?*

No. However, alienation of participating interests in Russian companies requires notary's certification for which notary fees may be charged (depending on the sum of the transaction).

**I** *Are there registration duties due upon a transfer of corporate assets?*

If a corporation buys an immovable property, it should register its rights in relation to this property. Registration duty in this case is RUB 22 000 (approx. USD 350).

**I** *Are there any other registration duties due?*

The RTC provides for the list of registration duties (it shall be analyzed on a case-by-case basis).

**G. Sales Tax or other Turnover Tax**

**I** *What is the system of sales tax (e.g. V.A.T., cumulative)?*

There is a VAT system in Russia.

**I** *Is input tax creditable against output tax?*

Generally, input VAT is creditable against output VAT.

**I** *What are the tax rates?*

Standard VAT rate is 18%. There are also reduced VAT rates of 10% and of 0% in relation to certain kind of operations. Sometimes a computed tax rate should be applied (e.g. 18/118, 10/110) (with respect to the VAT amounts withheld and paid by tax agents).

**I** *What are the filing and payment requirements?*

The tax period for VAT is a quarter. Generally, VAT should be paid in 3 equal instalments during the quarter not later than 25<sup>th</sup> of each of the three months following the tax period.

**H. Social Security and Welfare System Contributions**

**I** *Are social security contributions due?*

**I** *Are retirement or pension contributions due?*

- I** *Are unemployment insurance contributions due?*
- I** *What are the filing and payment requirements for any such contribution?*

Please see below the comments to section H.

Corporations themselves should pay for their employees the following contributions (on annual payments made to employee):

- contributions on social insurance. Rate: on payments up to 755 000 roubles – 2.9%, in excess of 755 000 roubles – 0%;
- contributions on pension insurance. Rate: on payments up to 876 000 roubles – 22%, in excess of 876 000 roubles – 10%;
- contributions on medical insurance. Rate: 5,1%;
- supplementary contributions for workplace accidents. Rate varies by industry (from 0.2% to 8.5%).

The above mentioned rates apply for the periods 2017-2019.

With regard to some kind of corporations there may be reduced rates of contributions.

Generally, contributions should be paid on a monthly basis (not later than 15<sup>th</sup> following each month). Filing should be made on a quarterly basis.

### **I. Special Tax Schemes**

- I** *Are there particular tax consequences of doing business in the country?*

N/a

### **J. Tax on Profits**

- I** *What are the federal or national income tax rates on profits?*
- I** *What are the regional or state tax rates on profits?*
- I** *What are the municipal or local tax rates on profits?*

Please see below the comments to section J.

The standard corporate income tax rate is 20% (3% payable to the federal budget and 17% - to the regional budget. Regional authorities may reduce their tax rate from 17% to 12,5% for certain kind of taxpayers).

There are also other tax rates depending on the type of income, e.g.:

- 0%/13%/15% – on dividends. The 13% rate applies to dividends received by Russian corporations. The 15% rate applies if the recipient of the dividends is a foreign corporation. The 0% rate applies to the dividends received by a Russian corporation if the recipient has held at least 50% of the payer's capital for more than 365 days, subject to certain limitations;
- 15% – on interest on certain types of state and municipal securities;
- 10% – income from the operation, maintenance or rental of vessels, airplanes or other mobile vehicles or containers in international traffic.

No separate taxes on profits are levied on regional and municipal levels.

#### **K. Tax Treaties**

**I** *Are there any applicable tax treaties?*

Russia has an extended network of bilateral tax treaties (approximately with 82 jurisdictions). It has recently joined the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS developed under BEPS Action 15.

**I** *Are there any rules against treaty-shopping?*

In some of the treaties there are “limitation on benefits” provisions. In addition, by joining the Multilateral Convention (see above) Russia has agreed to introduce “principal purpose test” (aimed at combating treaty-shopping) into most of its treaties.

#### **L. Territoriality Rules**

**I** *Where is the corporation subject to tax?*

Russian corporations and foreign corporations managed from Russia (and thus deemed Russian tax residents) are taxed in Russia on their worldwide income (taking into account relevant double tax treaties). Foreign corporations may be taxed in Russia if they have permanent establishments here (in relation to the profit of such permanent establishments) or if they receive income from the Russian sources (e.g. dividends).

**I** *Is the corporation subject to tax on its worldwide income?*

See above.

#### **M. Treatment of Tax Losses**

**I** *How are corporate tax losses treated?*

Corporations may carry forward tax losses to offset up to 50% of the annual tax base (before loss carryforward). The period of the loss carryforward is now unlimited.

#### **N. Wealth Tax**

**I** *Is there an applicable wealth tax?*

N/a

#### **O. Withholding Taxes**

**I** *What are the rates of withholding tax on dividends?*

0%/13%/15%. The 13% rate applies to dividends received by Russian corporations. The 15% rate applies if the recipient of the dividends is a foreign corporation (the rate may be reduced by the applicable tax treaty). The 0% rate applies to the dividends received by a Russian corporation if the recipient has held at least 50% of the payer's capital for more than 365 days, subject to certain limitations.

**I** *What are the rates of withholding tax on royalties?*

20% (the rate may be reduced by the applicable tax treaty down to 0%).

**I** *What are the rates of withholding tax on interest?*

20% (the rate may be reduced by the applicable tax treaty down to 0%).

**I** *What are the rates of withholding tax on profits realized by a foreign corporation?*

Foreign corporations may be taxed in Russia if they have permanent establishments here (in relation to the profit of such permanent establishments) at a 20% tax rate or if they receive income from the Russian sources (e.g. dividends). There is a list of income (provided for in the RTC) which is deemed to be received from the Russian sources. Other income of foreign corporations is not taxed in Russia.

### **XIII. Tax On Individuals**

#### **A. Allowances**

**I** *What are the major allowances?*

There are the following types of tax deductions provided for by the RTC:

- standard tax deductions;
- social tax deductions (e.g. expenses on education);
- investment tax deductions;
- property-related tax deductions (e.g. expenses on the purchase of property);
- professional tax deductions; etc.

These types of tax deductions in turn consist of long list of specific tax deductions (they shall be analyzed on a case-by-case basis).

Most of these deductions may be applied only by Russian tax residents (or by foreign highly qualified specialists working in Russia).

#### **B. Calculation of Taxes**

**I** *How is the taxable base determined?*

The taxable base relates to all taxable income of a taxpayer. In certain cases, the taxable income may be reduced by the amounts of applicable tax allowances.

### C. Capital Gains Tax

**I** *Are capital gains taxable?*

Yes. In certain cases (when tax allowances are not applicable) the gross receipts may be taxed (as opposed to capital gains only).

### D. Filing and Payment Requirements

**I** *When must the individual file a tax return, if any?*

Tax return should be submitted not later than April, 30 of the year following the tax period (=calendar year). Some categories of taxpayers (e.g. individual entrepreneurs) may have different terms.

**I** *When must the individual pay his/her taxes?*

The deadline for payment of taxes is July, 15 of the year following the tax period. Some categories of taxpayers (e.g. individual entrepreneurs) may have different deadlines.

### E. Inheritance and Gift Tax

- I** *Does the individuals' presence in the country subject him/her to inheritance or gift tax?*
- I** *What kinds of assets are subject to tax?*
- I** *What are the tax rates?*
- I** *Are allowances available?*
- I** *What are the payment and filing requirements?*

Please see below for comments to the section E. No special gift or inheritance taxes are levied. However, certain income received as inheritance or gift may be subject to individual income tax.

Remuneration which is paid to heirs (legal successors) of authors of scientific, literary or artistic works and remuneration which is paid to heirs of patent holders for inventions, utility models and industrial samples is subject to individual income tax.

With regard to taxation of gifts it should be noted that:

- income received by way of a gift shall be exempt from taxation in the event that the donor and the donee are members of a family and (or) close relatives pursuant to the Family Code (spouses, parents and children, including adoptive parents and adopted children, grandfather, grandmother and grandchildren, full siblings and half siblings (having a common father or mother));
- there is no tax in relation to income in monetary form and in kind which is received from individuals by way of a gift, except in the case of the gifting of immovable property, means of transport, shares, participating interests and stock units (but if between members of a family and (or) close relatives (see above) there is anyway no tax);

- other gifts (e.g. received from companies or individual entrepreneurs) are generally subject to individual income tax. The tax rate is 13% for Russian tax residents. Income may be received in any form (in monetary form or in kind).

### F. Miscellaneous Taxes Due

- 1 *What are the miscellaneous taxes to which the individual may be subject?*
- 1 *What are the filing and payment requirements?*

There are also the following taxes which depending on the circumstances should be paid by individuals:

- transport tax. Transport tax is imposed on cars, motorcycles, buses, vans, planes, helicopters, yachts, boats, ships, and other water, air, and land transport registered in Russia. Fixed rates (per unit of horsepower, gross tonne, or unit of transport), which are differentiated based on the engine capacity, gross tonnage, and type of transport, are applied;
- land tax. Tax rates may vary depending on the location and the category of the land;
- property tax (generally, it is paid in relation to buildings, houses, apartments etc.) The rate may vary from 0.1% to 2% of value of property.

Individual entrepreneurs may apply special tax regimes (e.g. simplified taxation regime) while carrying out commercial activity. These special tax regimes may supersede the payment of other taxes (e.g. personal income tax, property tax etc.) related to such commercial activity. Please refer also to Section VI G above.

### G. Real Estate/Habitation Tax

- 1 *Is the individual subject to real estate or habitation tax?*

Please refer to section F regarding property tax.

### H. Sales Tax

- 1 *Does the individual pay sales tax?*

No. But individual entrepreneurs may in some cases pay VAT if they do not apply special tax regimes (e.g. simplified taxation regime).

### I. Social Security and Welfare System Contributions

- 1 *Are contributions to social security due?*
- 1 *Are contributions to the welfare system due?*
- 1 *If so, what are the payment and filing requirements?*

Please see below for the comments to the section I.

Generally, all contributions for the employees are paid by their employers (please refer to Section H of Chapter XII above).

However, some categories of individuals (e.g. individual entrepreneurs, self-employed) should pay contributions themselves. The procedure and rates may vary.

#### **J. Stock Option, Profit Sharing and Savings Plans**

- l Is there taxation of stock option plans?*
- l Is there taxation of profit sharing plans?*
- l Is there taxation of savings plans?*

All types of income received by a taxpayer are taxed (at the time when the income is actually received). In order to assess tax implications of stock options plans and other similar schemes a separate analysis of the scheme in question should be made.

#### **K. Taxation of Benefits in Kind**

- l What is the rate of taxation on benefits in kind (e.g. automobile, housing and utilities, education, etc.)?*

Receipt of income in kind is taxed in Russia. Generally, the standard 13% tax rate is applicable. The taxable base is monetary value of the income in kind.

#### **L. Taxes on Dividends**

- l Are dividends taxable regardless of their form?*

Yes. Dividends received in kind are also taxable. General tax rates on dividends apply (as discussed in section M).

#### **M. Tax on Income**

- l What are the federal or national tax rates on income for residents?*
- l What are the federal or national tax rates on income for non-residents?*
- l What are the regional or state tax rates on income for residents?*
- l What are the regional or state tax rates on income for non-residents?*
- l What are the municipal or local tax rates on income for residents?*
- l What are the municipal or local tax rates on income for non-residents?*

Please see below for the comments to the section M.

The standard personal income tax rate for tax residents is 13%. This rate applies to all income for which another rate is not specified (including salary, dividends and other income earned by tax residents and earnings received by foreign individuals who qualify as Highly Qualified Specialists for immigration purposes for performance of work and services in this capacity).

There are also other tax rates applicable depending on the category of income:

- 35%. This rate applies to (a) interest income on bank deposits exceeding the Central Bank's refinancing rate increased by 5 percentage points (or interest income on non-rouble deposits exceeding 9%), (b) certain insurance payouts, (c) certain prizes, and (d) deemed income from certain low- or zero-interest loans;
- 9%. This rate applies to interest income on mortgage-backed bonds issued before January 1, 2007 and to income of institutors of the fiduciary management of a mortgage pool which has been received by means of the acquisition of mortgage participation certificates issued by the fiduciary manager before January 1, 2007.

The standard tax rate for non-residents is 30%. 15% tax rate applies to Russian-source dividend income received by non-residents. Some categories of non-residents (e.g. Highly Qualified Specialists) are taxed at 13% for performance of work and services in their special capacity.

#### **N. Tax Treaties**

- l *Are there any applicable tax treaties?*
- l *Are there any rules against treaty-shopping?*

Please refer to Section K of Chapter XII above.

#### **O. Territoriality Rules**

- l *Where is the individual subject to tax?*

Tax residents (i.e. individuals who spent more than 183 days during 12 consecutive months in Russia) are subject to tax in Russia in relation to their worldwide income (subject to provisions of the relevant tax treaties). Non-residents are taxed in Russia only in relation to income received from Russian sources (subject to provisions of the relevant tax treaties as well).

- l *Is the individual subject to tax on his/her worldwide income?*

Please see above.

#### **P. Wealth Tax**

- l *Is the individual subject to tax based upon his/her wealth?*
- l *If so, what are the rates?*
- l *Are there any allowances available?*
- l *What are the payment and filing requirements?*

No wealth tax is levied.

#### **Q. Withholding Tax**

- l *Is salary subject to a withholding tax at the source?*

Yes.

**I** *What is the treatment of residents as compared to non-residents?*

Generally, non-residents are taxed at 30% (15% on dividends from Russian companies). Tax treaties should be also taken into account. The withholding mechanism is the same as with regard to tax residents.

#### **XIV. Tax On Other Legal Bodies**

Starting from 2015 Russia has introduced the concept of CFC that implies taxation of undistributed profit of controlled foreign companies at the level of the controlling person in Russia.

A Russian tax resident is deemed as a controlling person of a foreign company if his participating interest in such a company exceeds 25% (or 10% in certain cases<sup>1</sup>) and/or if the resident otherwise controls the company. With respect to the year 2015 – participating interest should exceed 50%<sup>2</sup>.

The resident is deemed as a controlling person of a foreign structure<sup>3</sup> if he exercises control over such structure. A settlor of a foreign structure is its controlling person by default.

The resident's participating interest in a CFC is determined on December, 31 of the year following the year when CFC's financial year ends (provided there was no decision on dividends distribution). On the same date the resident recognizes his income which comprises of CFC's undistributed profit in proportion to his participating interest in such CFC.

CFC's undistributed profit may be determined based on its financial statement or according to the rules of chapter 25 of the RTC (corporate profits tax). Certain profit is not taken into account for taxation purposes (such as amounts from revaluation of participating interests, securities, derivatives etc., amounts of profit (loss) of subsidiaries (except for the dividends), amounts of expenses on the creation of reserves (provisions) and amounts of income from the restoration of reserves (provisions).

CFC's profit is taken into account when determining the tax base of a controlling person if its amount exceeds 10 mln roubles (for 2015 – 50 mln roubles, for 2016 – 30 mln roubles).

#### **XV. General Tax Considerations**

##### **A. Taxes Generally**

---

<sup>1</sup> Individual (together with spouse and minor children) may be deemed as a controlling person if his participating interest in CFC exceeds 10% and at the same time the overall participating interest of Russian tax residents in such company (for individuals – together with spouses and minor children) exceeds 50%.

<sup>2</sup> Together with spouse and minor children

<sup>3</sup> A foreign structure is a structure that is not considered a legal entity (e.g. trust, foundation etc.).

Specific tax implications for the implemented business structure often depend on the type of activity performed, investor residency, applicable tax treaties, etc. Therefore, advance consultation with tax specialists is highly recommended.

Taxpayers may apply to the Ministry of Finance to clarify certain legislative provisions (but not to comment on a specific business case). In case of adverse claims from the tax authorities, the taxpayer that followed the respective opinion stated in such individual clarification is relieved from tax liability (payment of fines) and late payment interest. However, the taxpayer will still have to pay the underpaid tax amount. Advance rulings are currently available to very limited group of taxpayers that apply so called tax monitoring (with the cumulative income not less than RUB 3 bil. (approx. USD 50 mln.), assets - not less than RUB 3 bil. (approx. USD 50 mln.). And the amount of taxes paid for the last tax period – not less than RUB 300 mln. (approx. USD 5 mln.)). Necessity to broaden the use of advance rulings is widely discussed but not yet implemented.

### **I** *Is there a general anti-tax avoidance system?*

Tax authorities and courts widely use a concept of unjustified tax benefits. It is a court-made doctrine that was first introduced in Resolution of the Plenum of the Supreme Arbitrazh Court dated October 12, 2006 № 53 On Assessment by the Arbitrazh Courts of Justifications for Taxpayers Receiving Tax Benefits. It was further development in substantial court practice.

In July 2017 new unjustified tax benefits rules were introduced into the RTC. The rules apply to cases when the taxpayer misrepresents economic events in statutory and tax accounting, or performs transactions with the principal purpose of underpayment of tax or obtaining tax offset (refund), or where the obligations under a transaction were not actually performed by the counterparty and/or its subcontractor authorized by contract or by law.

The above rules are generally aimed at combating aggressive tax planning schemes and "fly-by-night companies".

### **I** *Can the chosen form of business be treated as a deferent form for tax purposes?*

Tax authorities may potentially reclassify the specific operations or business structure for tax purposes under "substance over form" approach in case the taxpayer receives unjustified tax benefit (please refer to our respective comments above).

## **XVI. Immigration Requirements**

### **A. Immigration Controls**

#### **I** *Are there immigration quotas?*

Immigration quotas are established for foreign employees entering Russia under the standard procedure from visa countries. Quotas are also established for those foreign nationals willing to receive temporary residence in Russia. Foreign highly qualified specialists and employees from visa-free countries could apply for work permits and patents without quota.

Quotas for foreign citizens are annually approved by the Government of the RF before May, 1 of the preceding year. Quotas depend on the profession, specialization, qualification of foreign employees, as well as the country of their origin and other social, regional and economic criteria. Every year the Government establishes a list of professions which are highly demanded (usually, managers and engineers) who could work in Russia on a quota-exemption basis. Also, the Government introduces a list of spheres with the maximum share of foreign employees to be hired. For instance, in 2017 a company growing vegetables could hire 50% of foreign nationals, whereas a company selling goods on the market – 0%. If the number of foreign employees in the relevant field exceeds the share – the employer is obliged to reduce such employees.

### **I** *Are vaccinations required?*

No vaccinations are required by law for entering Russia.

### **I** *Are medical certificates required?*

In order to receive work permit or residence permit foreign nationals shall submit certificate on absence of HIV and health state. It includes confirmation of absence of such diseases as syphilis, leprosy, tuberculosis, chlamydial lymphogranuloma, cancer, drug addiction, etc. In order to receive these certificates, the foreign employee shall contact accredited medical institutions and provide all the necessary analysis and tests.

Foreign highly qualified specialists are released from submitting these documents.

### **I** *Are entry permits required?*

### **I** *If so, must you apply for an entry permit before entering the country?*

### **I** *Are exit permits required?*

### **I** *Are re-entry permits required?*

A foreign citizen does not need an entry or an exit permit. The legislation provides that every foreign national must have a visa to enter Russia, except for foreign nationals from visa-free countries (their visa-free stay is generally permitted for 90 days).

## **B. Immigration Requirements/Formalities**

### **I** *Is a residence permit required?*

Generally for business or tourism purposes foreign citizens may enter and stay in Russia without any residence permit but on the basis of visas. Permanent stay with further possibility to obtain Russian citizenship requires a respective residence permit (permanent or temporary). Temporary residence permit is usually established for 3 years. It gives the right to live in Russia before receiving permanent residence permit which could be issued after min. 1 year of residence. One having permanent residence permit could permanently live, freely enter and exit Russia. Its receiving precedes obtaining of the citizenship.

### **I** *If so, does the investor have to apply for one before entering the country?*

Application for a temporary/permanent residence permit shall be filed to the local office of the Department of Internal Affairs for Migration at the place of alleged residence. Application for a temporary residence permit may be filed also to the diplomatic representation or consular institution of the Russian Federation abroad.

### **I** *What information must be supplied to the immigration authorities?*

*Documents for temporary residence permit include:*

- application;
- two photos;
- passport (identification document);
- certificate on criminal record;
- document confirming that foreign citizen reside outside the country;
- medical certificates;
- document certifying knowledge of the Russian language, Russian history and basic principles of Russian legislation.

Application for the issue of a permanent residence permit shall be submitted by a foreign citizen to the territorial office of the Department of Internal Affairs for Migration no later than six months before the expiry of the temporary residence permit.

*Documents generally required for a permanent residence permit include:*

- application;
- four photos;
- passport (identification document);
- document confirming income;
- document confirming availability of residential premises;
- document certifying knowledge of the Russian language, Russian history and basic principles of Russian legislation;
- medical certificates.

Please note that for children under 18, participants of the State Program, highly-qualified specialists and their family, former citizen of USSR list of the documents could differ.

### **I** *How long does it take to receive authorization?*

The general term for the provision of temporary/permanent residence permit is 6 months from the date of filing the application.

## **C. Visas**

### **I** *Is a visa required for travel or stay in the country?*

Visas are required for travel and stay. Visa-free regime is in force in case of bilateral agreement (e.g., Azerbaijan, Armenia, Belarus, Kazakhstan, Kyrgyzstan, etc.). The Consular Divisions of Russian Embassies/ Consulates issues different categories of visas based upon the purpose of the trip and the duration of stay in Russia. E.g., multiple business visa allows to stay in Russia not more than 90 days within each 180 days. So, unlike

the work visa or study visa, business visa does not give foreign national the right to live in Russia for a long time.

### *l If so, for how long is the visa valid?*

Validity of the visa depends on its type. For example, business visa could be valid for 30-365 days and could allow one entry, two entries and multiple entries. Work visa is granted to foreign employees hired by Russian companies and is valid from three months to one year with multiple entries. Visas for foreign highly qualified specialists are issued for the term of their employment agreement and work permit (up to 3 years).

### *l How does the investor apply for a visa?*

The visa shall be applied in the Consular Divisions of Embassies/ Consulates in his/her jurisdiction.

### *l What documents are required?*

The following documents shall be submitted in order to obtain visa:

- completed visa application;
- passport (original only with at least two clear visa pages) that shall be valid no less than six months after the visa expiration date;
- one photo;
- invitation to Russia from a host person or organization.

### *l How long does it take to receive a visa?*

Typically it takes from 2 days to 20+ days. The processing time for a visa depends on several factors and can be changed without notice at the consulate's discretion.

### *l What fees are involved?*

Standard consular fee rates for US citizens are: USD 90 for one-entry visa, USD 114 for double-entry visa and USD 270 for multi-entry visa. Visa fees for nationals of the EU states are 35 € for all types of visas with the processing period of 4-20 working days and 70 € with the processing period of 3 working days.

## **XVII. Expatriate Employees**

### **A. Cost of Living and Immigration**

#### *l How does the cost of living compare to that in the investor's home country?*

The cost of living in Russia can be considered cheaper than in Western Europe or the United States. The most expensive city in Russia in terms of cost of living is Moscow (it is also considered the second most expensive city in Eastern Europe). The cost of living in other cities and towns of Russia is lower.

#### *l What is the rate of inflation?*

Table shows the annual inflation for the last 10 years. Inflation is presented as a percentage change relative to the previous period. The rate is calculated based on consumer price indexes, published by the Federal State Statistics Service.

<b>Years</b>	<b>Annual inflation in Russia, %</b>
2017	4,40 (July 2017)
2016	5,38
2015	12,90
2014	11,36
2013	6,45
2012	6,58
2011	6,10
2010	8,78
2009	8,80
2008	13,28
2007	11,87
2006	9,00

**B. Drivers' Licenses**

**I Must the investor obtain a driver's license for that country?**

If the investor intends to make a long stay in Russia, she/he shall exchange her/his national driver's license for a Russian driver's license within 60 days following receipt of the work and residence permit. Otherwise, the investor's driver's license would be considered invalid. Documents to be submitted to exchange the driver's license include:

- duly completed and signed request form;
- investor's passport or other identity document;
- medical certificate which can be obtained from a Russian clinic;
- color passport size photo;
- national driver's license along with a notarized translation thereof.

It is important to verify, beforehand, if investor's home country has signed an agreement with Russia for recognition of foreign driver's licenses. If this is the case, investor shall not be required to exchange her/his driver's license.

**I How does the investor obtain a driver's license?**

The legal driving age is 18 years (16 for motorcycles and 20 for buses) and to obtain a licence one must be physically fit to drive (including certificates of mental fitness and no record of substance abuse). To obtain a driver's license, the following documents are required:

- duly filled and signed application form;
- investor's original passport or any other identity document;
- any document proving that investor is staying in Russia for more than 12 months;
- medical certificate proving investor's ability to drive;
- document certifying the completion of training.

As for the exchange of the investor's national driver's license please refer to the previous Item.

**I** *What fees are involved?*

Fees for obtaining a driver's license include the cost for studying in the driving school (the exact amount of which depending on school) and fees for the examination and issue of a driver's license. The price of a driving course depends on the program investor chooses – averagely they cost between RUB 18,000 (approx. USD 300) and RUB 30,000 (approx. USD 500) for a course.

Fees for the examination in 2017 are RUB 4500 – approx. USD 70. The cost of medical examination would be around RUB 2500 (approx. USD 40), depending on the chosen clinic. The fee for issuing of a driver's license is RUB 2000 (approx. USD 30).

**I** *Is an examination, either practical or written, required?*

A driving licence is issued after taking a course of driving lessons (about 50 hours), passing the theoretical examination (a road traffic regulations test) and then the road test (test track and city driving). The driving course can be taken at any driving school. Exams are held at the State Road Traffic Safety Inspectorate (GIBDD). The theory test is usually a computerized multiple-choice test on various traffic rules. Twenty multiple-choice questions are asked, only one incorrect answer allowed in two different test topics (for a total of two incorrect answers) for a passing grade. After the main part of the test is finished, five additional questions are added for every incorrect answer, bringing a total maximum of questions to 30. The practical test is divided into two parts: basic skills test conducted in an isolated area (steering, slope starting, backing-up, parallel parking and an obstacle course) and a road test conducted on public roads. Four minor errors are allowed for the road driving examination. The number of retries is unlimited, but there is a mandatory grace period of one week for the first three tries and a month for any subsequent ones.

**C. Education**

**I** *What types of schools are available for the investor's family?*

Both types of school for the investor's family are available: private and municipal.

**I** *What fees are involved?*

Foreign citizens and citizens of the Russian Federation have equal rights in education. Therefore, foreign citizens can receive pre-school, primary general, basic general and secondary general education on a public and free basis. Foreign citizens shall pay for education in private schools, as well as citizens of Russian Federation.

**I** *What is required for enrollment?*

Pupils can be enrolled in primary schools generally from 6,5 to 8 ages. The effective law does not provide for specific requirements for enrollment in school. However, private schools may have different rules.

**I** *Can the investor or company receive a tax benefit?*

Yes, the respective amounts may reduce the taxable profit of the employer (provided the respective expenses are economically justified and properly documented and certain conditions are met (such as the educational institution should have license, etc.).

The investor may also be entitled to receive tax benefit - income tax deduction – in case of expenses on education, if she/he has a resident status in Russia. Granting of tax benefits is possible by filing an income tax return.

**D. Housing**

**I** *What type of housing is available for the investor?*

There are no limitations regarding housing for an investor, except that:

- foreigners and apatrides have no right to receive residential premises under social tenancy from the state;
- foreigners have no recourse to subsidies related to housing.

**I** *Can the investor own property?*

As a general rule, property may be freely alienated or may pass from one person to another, if it has not been withdrawn from circulation or restricted in the circulation.

The types of property withdrawn from circulation is pointed out in federal laws. There are also kinds of property, which may only be possessed by definite persons or under a special permit (the objects with a restricted circulation capacity). They are defined in accordance with a procedure established by federal law.

As an example, it is prohibited for foreign investors, both legal entities and individuals, to acquire land plots within territories contingent to the state border of the Russian Federation. Foreign investors and legal entities with more than 50% shares held by foreign investors may not own agricultural land and may hold such under lease agreement only.

**I** *Must the investor have housing before entering the country?*

No such requirement exists. However, a foreign individual may be refused to grant or deprived of permission on temporary residence or stay permit if on expiry of 3 years after entering the Russian Federation he or she does not have a residential premises on any ground.

**I** *Can the investor subsidize housing and receive a tax benefit?*

As it is provided by the Tax Code, an individual may receive a tax benefit - so called income tax deduction - when he/she acquires a residential premises or land granted for construction of such premises. An individual may receive back the sums of income tax (13%) paid on income equal to the price of the premises.

Alienation of residential premises is not levied with income tax if an individual owned it for 3 years and more.

These benefits are not available for non-residents of the Russian Federation.

Alienation of residential premises is not levied with value added tax.

However, for the period of housing construction there are increased factors of land tax.

### E. Importing Personal Possessions

#### *1 How can the investor import personal belongings?*

Personal belongings can be imported by investor him/herself or delivered by a carrier/postal service. Special customs regime on importing personal belongings only applies to goods which by themselves are of a non-commercial character. Such status is designated by customs authorities based on a relevant declaration made by an individual either verbal or written (including “green” and “red” corridors regime), quantity and character of goods transferred, and frequency of travel.

However, applicable laws provide for a number of exceptions:

- Particular listed goods are not considered as personal belongings, e.g. natural diamonds, industrial vehicles and equipment.
- Particular listed goods which are under general rules prohibited or restricted from importing to the territory of the Russian Federation cannot be imported by individuals. The list includes equipment for covert obtaining of information, guns, drugs except limited amount of pharmaceuticals prescribed, toxic substances, alcoholic beverages exceeding five liters and tobacco products exceeding 200 cigarettes, or 50 cigars (cigarillos), 250 grams of tobacco.
- Particular listed goods in addition to those specified above are prohibited from delivering by postal service, e.g. alcoholic beverages, tobacco products, models of guns, cultural values, perishable products.

#### *1 Are import duties payable?*

Personal belongings which may be imported free of customs duties include, for instance:

- personal belongings imported by air passengers up to EUR 10 000 and 50 kg or by other travelers up to EUR 1 500 and 50 kg including alcoholic beverages up to three liters and tobacco products (200 cigarettes, or 50 cigars (cigarillos), 250 grams of tobacco);
- used goods in quantity necessary for stay including one laptop, one photo/video camera, two cell-phones;
- personal belongings delivered by a carrier/postal service up to EUR 1 000 and 31 kg within one month;
- vehicles temporary imported for a period up to one year.

Customs duties payable in relation to goods not listed above are usually established as a percentage of the customs value of the goods (up to 30 %) or in Euro per unit of the goods; or sum of VAT and import duty.

**I** *Are there requirements for clearing the belongings through customs?*

For customs clearance purposes investor shall fill a passenger customs declaration, for instance, in relation to the following personal belongings:

- personal belongings delivered by a carrier;
- personal belongings subjected to prohibitions and restrictions;
- personal belongings not exempted from customs duties;
- luggage in case part of it delivered by a carrier;
- vehicles (except ones registered on the territory of the Customs Union);
- cash in amount more than USD 10 000;
- cultural values.

**F. Medical Care**

**I** *What level of medical care is available?*

All levels of medical care are available for investors. Medical care is provided in any medical institution that is state, municipal or private care facility. Emergency and ambulance medical care is provided to investors for free and without delay. Emergency medical care is provided to investors in all state and municipal medical care facilities, and attended to by medical care professionals, first responders and police officials. Investors who have temporary and permanent residence are insured via a compulsory medical insurance program. Costs associated with medical care are paid not by the patient, but by the medical insurance provider. Investors temporarily staying in Russia without either kind of residency status are eligible for free emergency care only. Payment of other medical services is the responsibility of the investor.

**I** *Is there national health care?*

Yes, there is national health care.

**G. Moving Costs**

**I** *What costs are involved in moving?*

Investors staying in Russia on legal grounds enjoy freedom of movement within the territory of Russia except as provided by law. The costs involved in moving vary widely subject to distance and type of transportation.

**I** *Can the investor receive any tax allowances?*

The moving costs per se will not reduce the taxable base of the individual taxpayer. In case the employee is compensated by the employer for the respective moving costs, such income may be non-taxable for the employee. But this will only be the case if the employer is specifically obliged to provide such compensation under the labor legislation.

## **H. Tax Liability**

Please refer to Chapter XIII, section M above. A flat rate of 13% applies to all income for which another rate is not specified, including salary, dividends and other income earned by tax-resident individuals and earnings received by foreign individuals who qualify as Highly Qualified Specialists (HQSs) for immigration purposes for performance of work and services in this capacity.

A flat rate of 15% applies to Russian-source dividend income received by individuals who are not tax residents. A flat rate of 30% applies to all taxable income (other than dividend income) received by individuals who are not tax residents, except earnings of HQSs.

## **I. Work Contracts**

### **I** *Does the investor need a work contract to work in the country?*

A foreign national carrying out labor activity on the territory of the Russian Federation (i.e. being employee under the employment agreement with one of the employers in Russia) must have a work contract and obtain a work permit. A work permit can only be obtained where there is a respective work contract between the foreign national and the employer in Russia. A person making investments into the Russian Federation without working as an employee on the territory of Russia could not receive a work permit. He/she has to enter and stay in Russia on the grounds, within the terms and according to the purposes of the received visa.

### **I** *If so, does the contract have to be for a certain duration, for the performance of a specific job or for a specific position?*

There are two types of work permits issued for foreign nationals planning to work in Russia as employees. The terms of employment contracts depends on such types of work permits:

- Standard work permits. Issued for work under max. 1-year employment agreement for performance of practically any job. Please note that this type of work permit is issued based on the quota principle. It means that a maximum amount of foreign nationals of a certain profession who could receive work permit is limited. Such amount depends on many social, regional and economic criteria. Every year the Government establishes a list of professions which are highly demanded (usually, managers and engineers) who could work in Russia on a quota-exemption basis, as well as list of spheres where the total share of foreign employees is 0% (i.e., it is not possible to receive work permit in this sphere).
- Work permits of highly qualified specialists (HQS). Issued for work for a maximum 3-year employment agreement for performance of practically any job as HQS are hired regardless of quotas. HQS could not work in the field of sale goods to the customers (only manage this type of activity). They shall be paid at least 167 000 RUB as a general rule (approx. 2800 USD).

### **I** *Does the contract have to be with a national or resident of the country or related state?*

In case of receiving work permit under the standard procedure the employment agreement could be concluded with a physical person or legal entity (Russian residents) who received permit to attract foreign labor force.

Foreign nationals could also be employers for this type of work permit, if they are registered as individual entrepreneurs with tax authorities.

In case of receiving work permit for HQS the employment agreement could be concluded with Russian commercial legal entities, scientific and innovative organizations, accredited branches and representative offices, sport organizations and federations.

## **J. Work Permits**

### **I** *Does the investor need a work permit to work in the country?*

Please see Section I above.

### **I** *How and where does the investor apply for the permit?*

A foreign employee could not obtain a work permit under the standard procedure him/herself. The employer hiring the foreign national under the standard procedure shall:

1. Apply for quota on <http://www.migrakvota.gov.ru/>;
2. File an application to territorial body of the employment service;
3. Apply to the territorial body of the Ministry of Internal Affairs to receive permit to attract foreign labor force
4. Apply to the territorial body of the Ministry of Internal Affairs to receive work permit
5. Apply for invitation letter for work visa of the employee.

Being outside of Russia foreign citizen prepares medical documents and documents proving education and knowledge of the Russian language, history and law. Copies of all documents shall be translated, notarized and legalized in due course. These documents may be also prepared in Russia and then submitted within 30 days after receiving work permit.

Company hiring HQS shall observe the following simplified procedure:

1. Sign the employment agreement with HQS
2. Notify the territorial body of the Ministry of Internal Affairs on signing the employment agreement with HQS
3. File documents for obtaining work permit
4. File documents for preparing invitation letter for obtaining work visa for HQS and registration of the company within the Ministry of Internal Affairs
5. Receiving invitation letter and sending it to the HQS abroad.

The HQS shall obtain a work visa in the Consular Division of the Embassy/ Consulate abroad, enter Russia under the working visa and obtain work permit in the Ministry of Internal Affairs in person.

### **I** *What documents are required?*

An application for a work permit requires the submission of the following documents:



## Guide To Doing Business in Russia

- a set of documents relating to the employer (articles of association, certificate of registration, document certifying the authority of the CEO, etc.)
- permit to attract foreign labor force (issued for the company hiring foreign national, no need to receive for hiring HQS)
- a draft employment agreement with the prospective foreign national (in case of highly qualified specialist – signed employment agreement)
- a medical certificate for the foreign national, confirming the absence of such diseases as HIV, syphilis, leprosy, tuberculosis, chlamydial lymphogranuloma, cancrroid and drug addiction (no need to provide it for highly qualified specialists)
- a copy of the voluntary medical insurance policy for the whole period of the employment agreement
- a certificate confirming knowledge of the Russian language, history and law (no need to provide it for highly qualified specialists)
- a certificate of education, apostilled in the home country and submitted with a notarized Russian translation
- photos
- guarantee letter from the employer stating that the company bears all expenses of the employee connected with his/her deportation
- employer's registration card in the territorial body of the Ministry of Internal Affairs.

### **I** *What fees are involved?*

The state fee for obtaining work visa is RUB 3 500 (approx. USD 60). State fee for obtaining permit to attract foreign labor is RUB 10 000 (approx. USD 170). State fee for invitational letter for the employee's visa is RUB 800 (approx. USD 14).

### **I** *How long does it take to receive the permit?*

The whole procedure of receiving work permit could take 3 months for standard procedure and 1 month for highly qualified specialists. Standard work permit could not be prolonged, thus, the procedure of its obtaining starts each year from the very beginning.

### **I** *For how long is the permit valid?*

A standard work permit is valid during the employment contract and visa, but no longer than 1 year. A work permit for HQS can be issued for the term of their employment contracts and visas, but no longer than three years.