



Chandrawat
& Partners

DOING BUSINESS IN RUSSIA

A comprehensive guide on Russia

enquiries@chandrawatpartners.com | www.chandrawatpartners.com

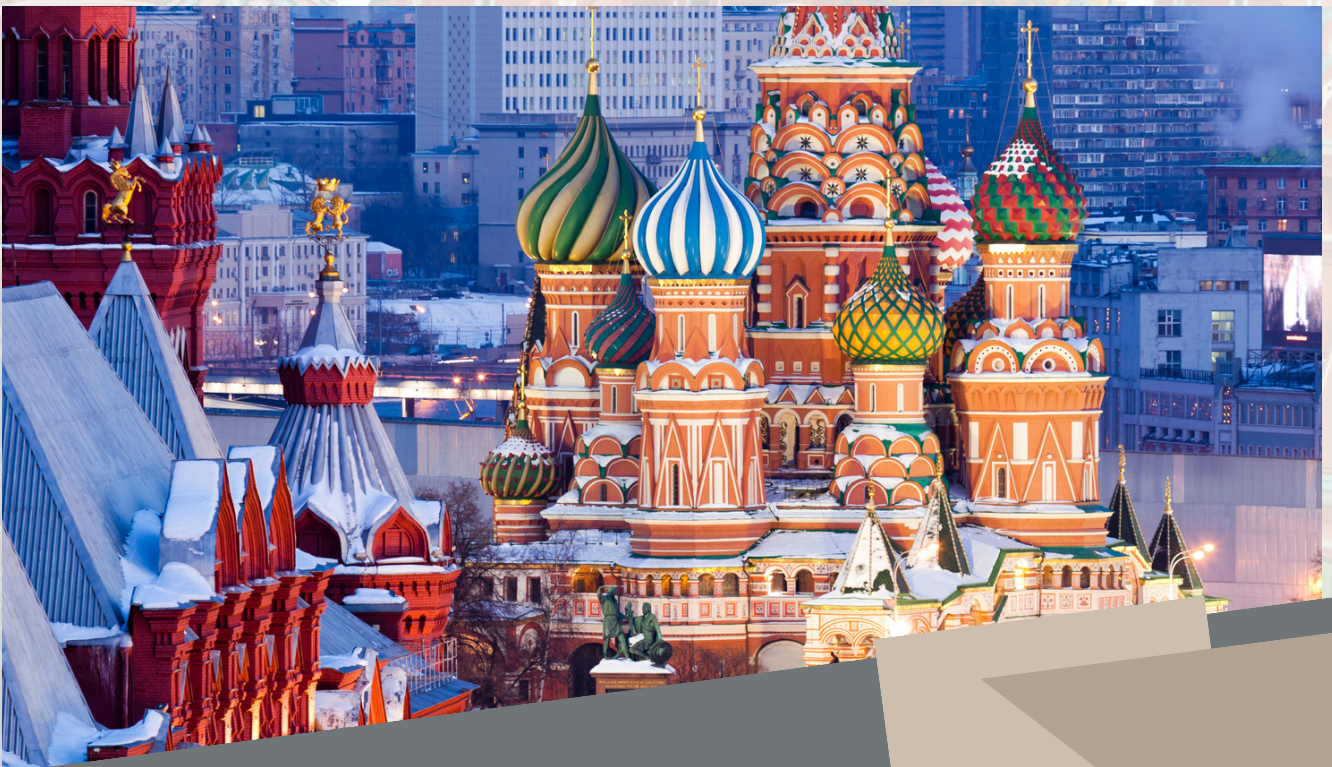
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INTRODUCTION

The whole of Russia spans total of 11 time zones, while UTC+3 is the time zone of Moscow, but other cities like St. Petersburg, Kazan and Ufa have different time zones than that. According to reports of the Ministry of Economic Development Gross Domestic Product in 2024 will begin to grow at a rate of 2.65% annual rate, because of the increase in domestic consumer and investment demand.

These agreements are overseen by the Ministry of Industry and Trade that allow foreign firms to set up local production access to specific subsidies, allowing them to take part in Russia's import substitution programmes. The Russian government unveiled "SPIC-2.0" recently, which encourages long-term private investment in high-tech projects and technology transfer in the manufacturing sector.

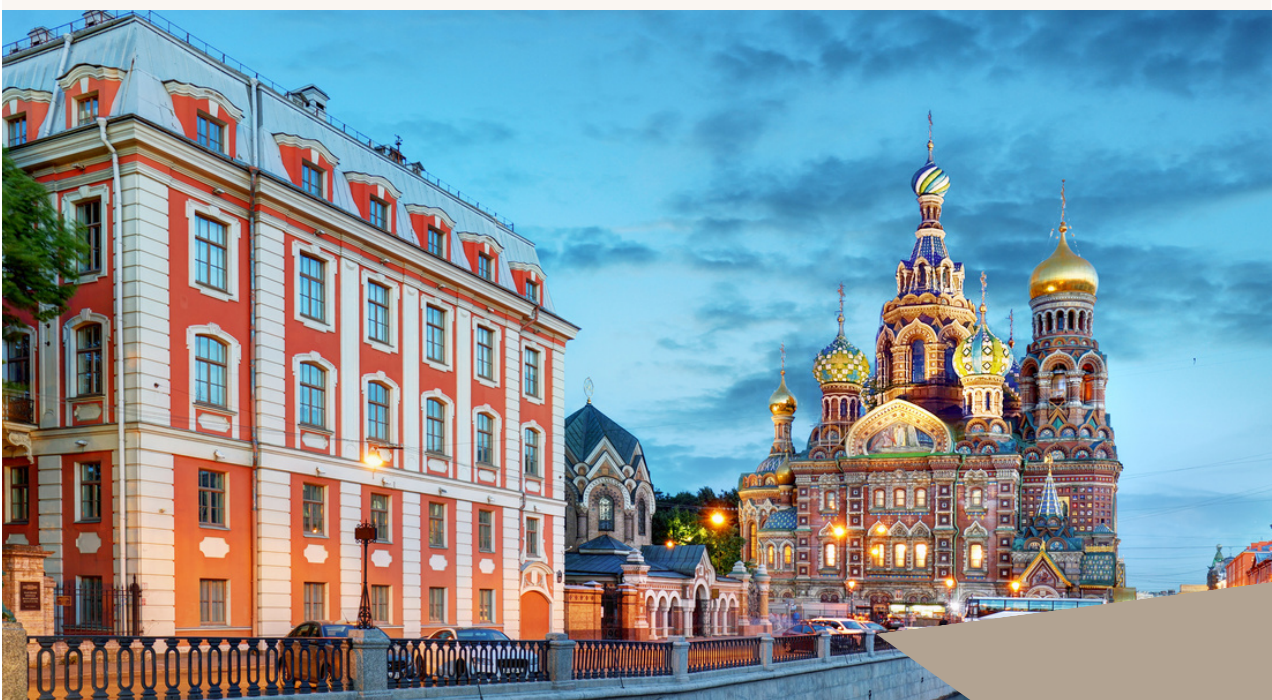


ECONOMIC OVERVIEW

Russia is a mixed market-oriented economy with enormous natural resources, particularly in oil, gas and mining

The economy has undergone a significant transformation recently, shifting away from heavy investment in manufacturing and agriculture towards market services.

- The Russian economy is volatile and has been impacted by international sanctions and geopolitical tensions
- The economy seems on track to exit the recession, with economic activity jumping 3.3% annually in April 2023, marking the first expansion since February 2022.
- The World Bank is providing fast-track financing to help countries in Europe and Central Asia mitigate and address the health, social and economic impacts of the coronavirus crisis, including Russia.



FOREIGN DIRECT INVESTMENT POLICY

Foreign Direct Investment ("FDI")

Two types of investors are differentiated by the Russian FDI regime:

- **Private investors** – foreign legal entities, foreign citizens, Russian citizens that have dual citizenship and Russian legal entities controlled by any of them;
- **Public investors** – entities controlled by a foreign government or an international organisation.

Guarantees for foreign investors in Russia

Most Favoured Nation Treatment: Foreign investors are granted the most favoured nation treatment under Law No. 160-FZ, which ensures that they receive the same treatment as domestic investors.

Rights Equal to Russian Investors: The 1991 Investment Code and 1999 Law on Foreign Investment guarantee that foreign investors enjoy rights equal to those of Russian investors. This includes the rights to investment, earnings, and profit gained on investments.

Protection against Nationalization: The 1991 Investment Code prohibits the nationalization of foreign investments, except in cases of legislative action and when it is deemed to be in the public interest.

Freedom to Transfer Funds: Many Russian Bilateral Investment Treaties ("BITs") require Russia to ensure that foreign investors can freely transfer funds relating to their investment out of the country.

KEY SECTORS

- **Energy and Natural Resources:** Russia is one of the world's leading producers and exporters of natural resources, including oil, natural gas, coal, metals, and minerals. The energy sector plays a significant role in the Russian economy, making it an attractive industry for foreign investment and business partnerships.
- **Manufacturing:** Russia has a well-developed manufacturing sector, which includes machinery, automotive, aerospace, electronics, and chemical industries. The country's large population also creates a substantial domestic market for various consumer goods.
- **Information Technology ("IT") and Software Development:** The IT sector in Russia has been growing rapidly, with a thriving software development industry. Many Russian tech companies are known for their software, cybersecurity and artificial intelligence expertise.
- **Agriculture and Food Processing:** Russia has vast fertile lands that support agricultural activities, making it a major producer and exporter of grains, meat, dairy and other food products. The food processing industry has significant potential for investment and expansion.
- **Retail and Consumer Goods:** Russia's growing middle class has led to increased consumer spending on retail products, fashion, electronics, and luxury goods. The retail sector offers opportunities for international brands and franchises.
- **Pharmaceuticals and Healthcare:** The healthcare sector in Russia has been modernizing, creating opportunities for pharmaceutical companies, medical equipment suppliers and healthcare service providers.
- **Financial Services:** Russia's financial sector has been evolving, providing opportunities for banking, insurance and fintech companies.

ADVANTAGES

- **Large Consumer Base with Spending Power:** Russia has a large consumer base with significant spending power, making it an attractive market for businesses
- **Stabilized Growing Economy:** Russia boasts one of the most dynamically developing and lucrative economies in the world, making it a favourable destination for foreign investment.
- **Competitive and Skilled Labor:** Russia has a competitive and skilled labour force, and the availability of technically capable people is a positive factor for doing business in Russia.
- **Strategic Location:** Russia's strategic location makes it an attractive hub for businesses looking to expand their global reach.
- **Attractive Incentives for Foreigners to Do Business:** Russia offers attractive incentives for foreigners to do business, including reduced costs for entrepreneurs, the relative availability of loans and the ease of registering a business with a minimum number of documents.
- **Low Operating Costs:** In terms of capital and operating costs, it is more profitable to do business in Russia than in Europe.
- **Vast Economy:** Russia is the largest country in the world and with that vast land mass comes a vast economy, presenting many opportunities and benefits to companies that are willing to take on the learning curve.
- **Ease of Doing Business:** Russia has made significant improvements in its ease of doing business ranking, moving up by 95 positions since 2011, making it easier for businesses to start and operate locally.

FORMS OF BUSINESS IN RUSSIA

The forms of business in Russia are divided into two categories mainly based on permanent presence in Russia.

Direct Sales – It falls under the category when the foreign company does not want to make a permanent presence in Russia. Under this category, the foreign company directly conducts its sales to the clients in Russia, without any intermediary. Under this category, all the customs & duties are all paid by the client except some basic charges that are to be paid by the foreign company

Sales through a Distributor - It would also come under the above-mentioned category, under this, the foreign company conducts its sales through a domestic distributor of Russia, all the tariff and custom-related duties are paid by the domestic distributor in this situation.

Representative Office – This would fall under the category of when the foreign company intends to make a permanent presence in Russia, the role of the representative office is to act in the domestic territory on behalf of the foreign company, but it is not a legal independent body and it may also perform commercial activities which in that case will make it equal to a branch of the company.

Branch- It is very similar to a representative office, except for two things, the first one being unlike representative offices they can conduct any sort of activity and the second one is they only need to pay only payroll and property taxes, but a branch would be liable to pay all the taxes and custom duties.

Subsidiary – It is not like the other two forms mentioned above although subsidiaries would also come under the same category on the basis of permanent presence, they will be an independent legal body and shareholders would bear all sorts of liabilities and all the taxes and duties also needed to be paid by shareholders only.

HOW TO SET UP A BUSINESS?

- Usually, a company's registration is done within three to six weeks of applying, but registration of a joint stock company would take additional four weeks to be completed as registration of the issued shares with the federal financial market services is mandatory for a joint stock company. To get a company registered, one must prepare a package that contains all the relevant documents and submit it to the tax office. There is almost fifteen to twenty % chances that the first application will get denied. The presence of all the founders of the company that is getting registered is mandatory at the time of submission of the application.
- **Decide on a Legal Structure:** The first step is to decide on the legal structure of the company, which can be a limited liability company, a partnership company, representative office, branch of a foreign company, or a joint stock company
- **Choose a Business Name and Address:** Choose an appropriate trading name for the business, ensuring that the name is not already registered and choose an address to register the business.

- **Notarize the Foundation Documents:** The foundation documents must be notarized and the required documents may vary depending on the legal structure of the company.
- **Join the Russian Company Register:** Register the company with the Russian Company Register, which is the official trade register in Russia.
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- **Deposit the Share Capital:** Deposit the share capital of the company, which varies depending on the legal structure of the company.
- **Register with Tax and Social Security Authorities:** Register with the federal tax authorities, the State Pension Fund, the State Fund of Social Insurance and the State Fund of Compulsory Medical Insurance.
- **Register with the Moscow Centre of Quotation of Work Places:** Register with the Moscow Centre of Quotation of Work Places, which is responsible for registering employees and providing employment services.

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TAXATION



There are two kind of tax systems that could be adopted by companies in Russia,

1) Simplified Tax System- The Company that adopts the simplified tax systems generally get exemption from Value Added Tax and Corporate Profit Tax, but such companies still have to pay the import value added tax, this won't get exempted.

To adopt Simplified tax system, the company needs to qualify with this criterion –

- a. That company should be at least owned 75% by individuals.
- b. And the annual income should not cross the limit of 188 million Rubles.
- c. And the company should not be in possession of fixed assets of more than 150 million.
- d. The company staff should be less than 100 in number.
- e. A company with even a single branch won't qualify i.e., no branches should be there.

There are two options in Simplified tax system for the company to opt for-

1. The first one is 15% of the income minus the expenses of the company, but there is a condition attached to it that the outcome of this should not be less than 1% of the total revenue of the company. But the right to decide rate between 5-15% is with the Russian federation, but it should be between this given limit.
2. The second one being 6% of the income of the company, there is no condition attached with this type of simplified tax system option and the Russian federation can decide the rate between 1% to 6%.



2) Automated Simplified Tax System –

Under this kind of tax system, the tax authorities focus on striving for maximum transparency and automation of interaction with companies.

They are available in several areas of Russia, but a company can only opt for automated simplified tax system, if it fulfils the following criteria –

- a. That company should be at least owned 75% by one or more individuals.
- b. The income per year of the company should not exceed more than 60 million Rubles.
- c. The company should not own fixed assets worth more of 150 million Rubles.
- d. The company should not have more than 5 employees and all the employees should be tax residents of Russia.
- e. Salary is already paid other than on cash basis. The company should not have any branches.



ACCOUNTING STANDARDS

- **Adoption of International Financial Reporting Standards (IFRS):**

In recent years, Russia has been aligning its accounting standards with International Financial Reporting Standards ("IFRS") to improve transparency and attract foreign investment. Some large companies, particularly those listed on international stock exchanges or with significant foreign investors, may be required or opt to prepare their financial statements in accordance with IFRS.

- **Chart of Accounts:**

Russian companies must follow a standardized chart of accounts, which classifies financial transactions into various categories for systematic recording and reporting.

- **Financial Statements:**

Russian accounting standards require companies to prepare the following financial statements:

- **Balance Sheet (Statement of Financial Position):**

Provides a snapshot of a company's financial position, presenting its assets, liabilities and equity at a specific date.

- **Profit and Loss Statement (Income Statement):**

Summarizes a company's revenues, expenses, gains and losses during a specific accounting period.

- **Cash Flow Statement:**

Presents the cash inflows and outflows of a company during a particular period, categorized as operating, investing and financing activities.

- **Statement of Changes in Equity:**

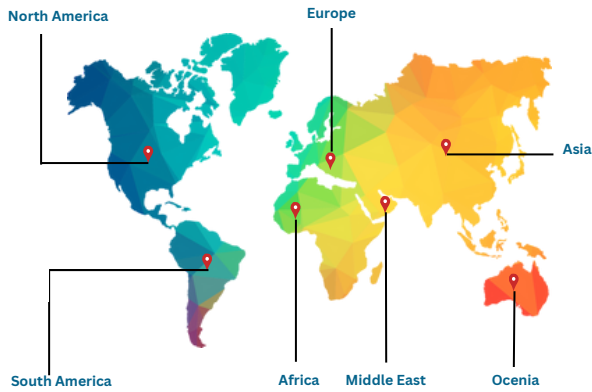
Demonstrates changes in shareholders' equity during the reporting period.

HOW WE CAN HELP ?

- Our team of professionals can conduct comprehensive market research to help businesses understand their target audience, industry trends and potential competitors.
- Our experts can help set clear objectives, outline actionable steps and identify opportunities for growth and expansion.
- Our team can conduct risk assessments to identify potential threats and vulnerabilities within a business. They can then recommend risk mitigation strategies to safeguard against adverse events.
- Our team offers advice on the optimal legal form for an enterprise, such as a corporation, partnership, limited liability company ("LLC") or sole proprietorship. Our team describes the legal and tax implications of each option and assists in picking the best option based on objectives and circumstances.
- Our team can investigate and identify any licenses, permissions or registrations required for the client's specific area or industry. The business assists with the application process and ensures that the organization complies with all legal criteria.



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Key Contact



Surendra Singh Chandrawat

Managing Partner

✉ surendra@chandrawatpartners.com

Connect Surendra on



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