



COMPANY FORMATION IN RUSSIA

MAIN FORMS OF COMPANY/BUSINESS IN RUSSIA

Currently, the following forms of commercial legal entities (for-profit) may be incorporated in Russia:

- Full partnerships;
- Limited partnerships ("kommandit" partnerships);
- Limited liability companies;
- Additional liability companies;
- Production cooperatives;
- Joint-stock companies

Of the above, only the joint-stock company resembles a corporation, but the limited partnership also limit the liabilities of investors, as described below. These are the more popular forms of doing business.

SPECIFIC TAX CONCERNS RELATED TO ESTABLISHING A COMPANY

There are several systems of taxation in Russia. The most frequently encountered include the following:

General system of taxation – may be applied by all types of legal entities. All taxes and appropriate tax rates will be applied.

Simplified system of taxation – was implemented specifically for SMEs and can be applied by legal entities where the total annual revenue does not exceed RUB 60 million (this number is not fixed and may vary from year to year). There are several other limitations including one that prevents a corporate shareholder from owning more than 25% of the shares (i.e. a 100% subsidiary of foreign legal entity does not qualify). The tax rate is 6% (if tax basis is revenue) or 15% (if tax basis is profit). Revenue and expenses are to be calculated on a cash basis.

Taxes and tax rates applied under the General system of taxation are:

- Value Added Tax (VAT): General tax rate is 18%; for certain groups of goods 10%; export operations 0%.
- Corporate Profit Tax: Tax rate is 20%.
- Property tax: The tax rate depends on the region of Russia, but cannot exceed 2.2%.
- Personal Income Tax: This is the employee's personal obligation; the tax rate is a flat 13% for residents and 30% for nonresidents.
- Social insurance payments: This is the employer's only obligation; the rate is approx 30%. There is also an additional 10% for employees that earn over a certain threshold.

LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

In terms of a company's registration process the first thing to do is to find a reliable lawyer, who will guide you through the information and paperwork. There is no need to look for a big attorney firm, one could find suitable assistance by following advice from friends, partners, embassies, or associations. After finding the lawyer it takes about a month or even just three weeks to obtain the registration.

It can be difficult for a newcomer to find complete information about the process of registration and subscribing



to the full range of state insurances and tax institutions. That's why it should be addressed to a lawyer, instead of doing it yourself. The registration procedures work fast. It takes only 15 minutes to hand over the registration documents in the respective offices. You get the registration and tax certificates within 5 working days.

It is important from the very beginning to set up proper bookkeeping and to arrange for the secure receipt of state authorities' correspondence. The post does not work correctly, letters are delayed, and often they are not delivered at all. One of the main secretarial tasks is to deal with the post! And it takes time!

CULTURAL CONCERNS RELATED TO ESTABLISHING A COMPANY

Twenty years ago staffing was not a problem; instead the issue was a shortage of skills. Now we almost have the reverse situation where in today's market there is generally not a problem with skills but there is an issue in finding available staff.

It is generally accepted that Russia has a very well-educated work force and that many young people are innovative. One successful owner told us recently that in his view "Russia is a laboratory of ideas." We therefore find that many SMEs succeed in attracting good people by offering a good working environment, consensual decision-making, attention to training and development, and maybe some form of ownership participation. What we have also been told by successful owners of SMEs is not to underestimate the importance of treating people well, being appreciative and having a good working environment. Also, be open with people and let them know what is happening and treat them with the respect that they deserve. With regard to talent retention and motivation, salary is still the biggest factor. However, job satisfaction and career growth are becoming more significant. With regard to additional employee benefits, private medical insurance has become the norm, even for SMEs.

One peculiarity about compensation in Russia is that all employees think in terms of "net salary". Therefore if a potential candidate says he is looking for 100 roubles in salary, that means 100 roubles in his pocket, with the tax grossed up and paid by the employer.

OTHER COUNTRY-SPECIFIC ISSUES RELATED TO ESTABLISHING A COMPANY

The only other consideration is choosing your bank. In Russia the bank is more an agent of the state - ensuring all regulations are met - rather than "your bank" acting in your interest. Therefore expect them to be bureaucratic.

That said, while there are some currency regulations related to documenting cross border movement of funds, getting currency in and out of Russia is not a difficult task and no unusual taxes apply.