



Introduction into the Russian Legal and Tax System

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1. Russia in brief

- ▶ Russian Federation=Russia is a federal semi-presidential republic
- ▶ Largest country in the world



- ▶ 9-th most populous country (143 mln people)
- ▶ Political subdivision: 83 constituent entities => 10 federal districts. There are different types of constituent entities, which enjoy different degrees of autonomy (asymmetrical federation)
- ▶ Capital: Moscow

2. Legal acts

2.1. Subordination

- ▶ Constitution
- ▶ International treaties of Russia
- ▶ Federal constitutional laws
- ▶ Federal laws (codified and non-codified)
- ▶ Constitutions of the constituent entities of Russia
- ▶ Laws of the constituent entities of Russia
- ▶ Bylaws and subordinate acts (orders of president, decrees of government etc.)

2.2. Enactment:

- ▶ Laws have to be
 - adopted by the 2 chambers of parliament (Federal Assembly) Federal Duma (lower chamber of parliament) and the Council of the Federation (upper chamber of parliament)
 - signed by the President
 - published (most laws enter into force after they are published)



3. Legal entities

Commercial				Non-commercial	
Private				State- and municipal - owned	<ul style="list-style-type: none"> - Consumer's co-operative - Non-profit organization - Religious organizations - Establishments - Foundation [charitable and other] Etc.
Companies		Partnerships			
Joint stock companies		Full	Limited liability (commandite)		
Open	closed				



3.1. Companies

- ▶ Members/shareholders are not liable for the obligations of companies.
- ▶ Main body of a company is general meeting of members/shareholders.
- ▶ A company is managed by a CEO (individual or a legal entity), who has the right to represent the company without PoA, is obliged to make filings on behalf of the companies etc.
- ▶ Board of directors may (in certain cases – must) be formed. The BoD is a body, capable of deciding certain issues, but it (as well as its members) cannot represent the company – this is the function of the CEO.

Generally, companies in Russia must be “working” entities, i.e. they have to

- ▶ All companies have to submit financial statements (quarterly) to the Federal Taxation Service , in certain cases (reaching of certain thresholds) financial statements needs to be audited, this means that a company must have an accountant.
- ▶ Companies must be registered in social funds: pension fund, social insurance fund and mandatory medical insurance fund.
- ▶ All companies must have an address.
- ▶ At least 50% of charter capital has to be paid-up at registration (for LLCs) or within 3 months from registration, the balance to be paid at the first year of operation (contributions can be made in cash or in kind).

Therefore, maintenance of “shelf” companies in Russia is disadvantageous, cumbersome and not cost-wise.



3.1. Types of companies

	Limited Liability Companies	Closed Joint Stock Companies	Open Joint Stock Companies
Minimum charter capital	10 000 RUR (ca 250 EUR)	10 000 RUR (ca 250 EUR)	100 000 RUR (ca 2 500 EUR)
No of members/shareholders	1-50	1-50	No max.
Share capital is divided into	Participation interests	Shares	Shares
Shares may be listed at stock exchange	No (not a negotiable instrument)	No	Yes
Right of first refusal	Yes	Yes	Only with regard to the newly-issued shares
Necessity to form the BoD	No	No	In case of more than 50 shareholders
Disclosure of additional information	Major facts	Major facts	Strict requirements for information disclosure
		Can issue several classes of shares, preferred shares	Can issue several classes of shares, preferred shares
		Shares and other securities are to be registered with the Central bank of Russia	Shares and other securities are to be registered with the Central bank of Russia

3.2. Partnerships

- ▶ Full partners are liable for the obligations of the partnership by all their assets. They manage affairs of the partnership.
- ▶ Limited partners' liability is limited by the stake inserted into the partnership, they do not manage the affairs of the partnership.

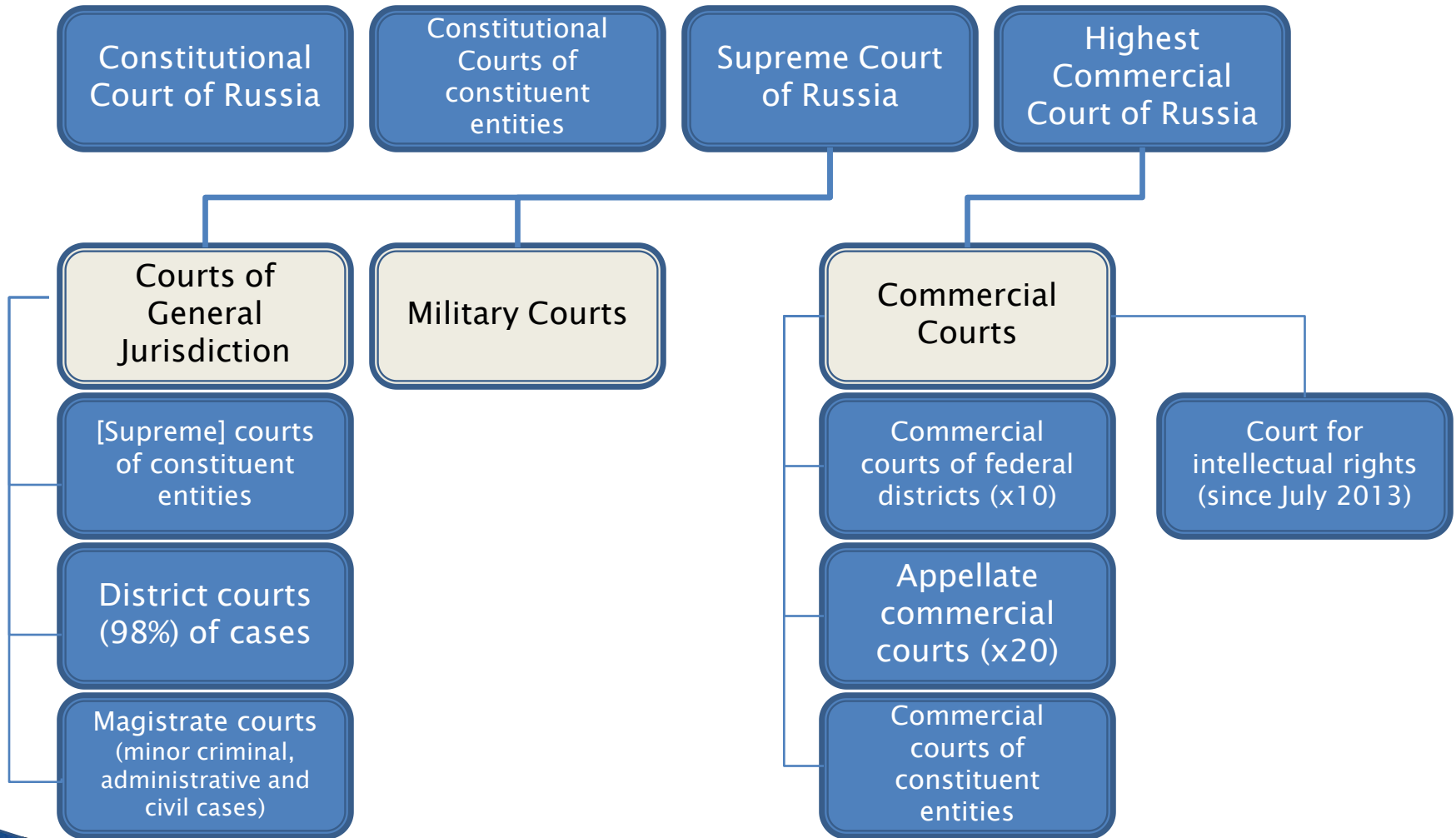


3.3. Major trends in corporate legislation development

- ▶ 1. Elimination of Closed Joint Stock Companies, since they are regulated almost similarly to the LLCs;
- ▶ 2. Giving way to shareholders' agreements: the amendments allowing shareholders agreements were introduced in 2011, but were not actually supported by the courts;
- ▶ 3. Making companies more transparent: there are more and more requirements to disclose information on the companies (amounts of net assets, major facts, types of activities, members of LLCs);
- ▶ 4. Making decision-making persons responsible for the debts of a company in case of its bankruptcy because of such persons' wrongful management.



4. Judicial System



4. Judicial System (continued)

- ▶ Commercial courts resolve commercial disputes between legal entities, disputes involving registered entrepreneurs, corporate disputes, bankruptcy cases;
- ▶ Court for intellectual rights (within the structure of commercial courts) hears cases in connection with the intellectual property rights:
- ▶ The courts of general jurisdiction hear the rest of civil cases. They also hear criminal cases.

Commercial courts tend to follow the modern legal society trends, the judges are competent, the case law reached certain level of order and internal consistency, the courts develop their information resources and use web technologies: the web-site of the commercial courts shows all the acts of the court since 2009, schedule of cases, has a handy search vehicle (demonstration will follow).

At the same time courts of general jurisdiction are overloaded by cases, representation of one's interest in the courts of general jurisdiction is always connected with certain technical difficulties.



In June 2013 Vladimir Putin made a proposition that the Supreme Court of Russia and Highest Commercial Court are unified.

5. Introduction into taxation system (taxation of individuals)

Individuals pay personal income tax. The common rate for Russian residents is 13%, for non-Russian residents – 30%. The employer, being tax agent calculates, withholds the tax from the salary payments and remit the tax to the treasury.

In addition to that, employer is required to pay contributions to social security funds. These payments are made from the funds of the employer (as opposed to the 13% personal income tax that is withheld from the salary). The rates of the social security payments that apply to the salary are as follows:

- to the RF Pension Fund – 26%;
- to the RF Social Security Fund – 2,9%;
- to the RF Federal Mandatory Medical Insurance Fund – 5,1%;
- contributions on insurance against accidents and injuries – 0,2%–8,5% (in most cases 0,2%)
i.e. cumulatively to all funds – 34,2%.

There are special tax rates for certain incomes: e.g. dividend income is subject to 9% tax (15% for non-residents).

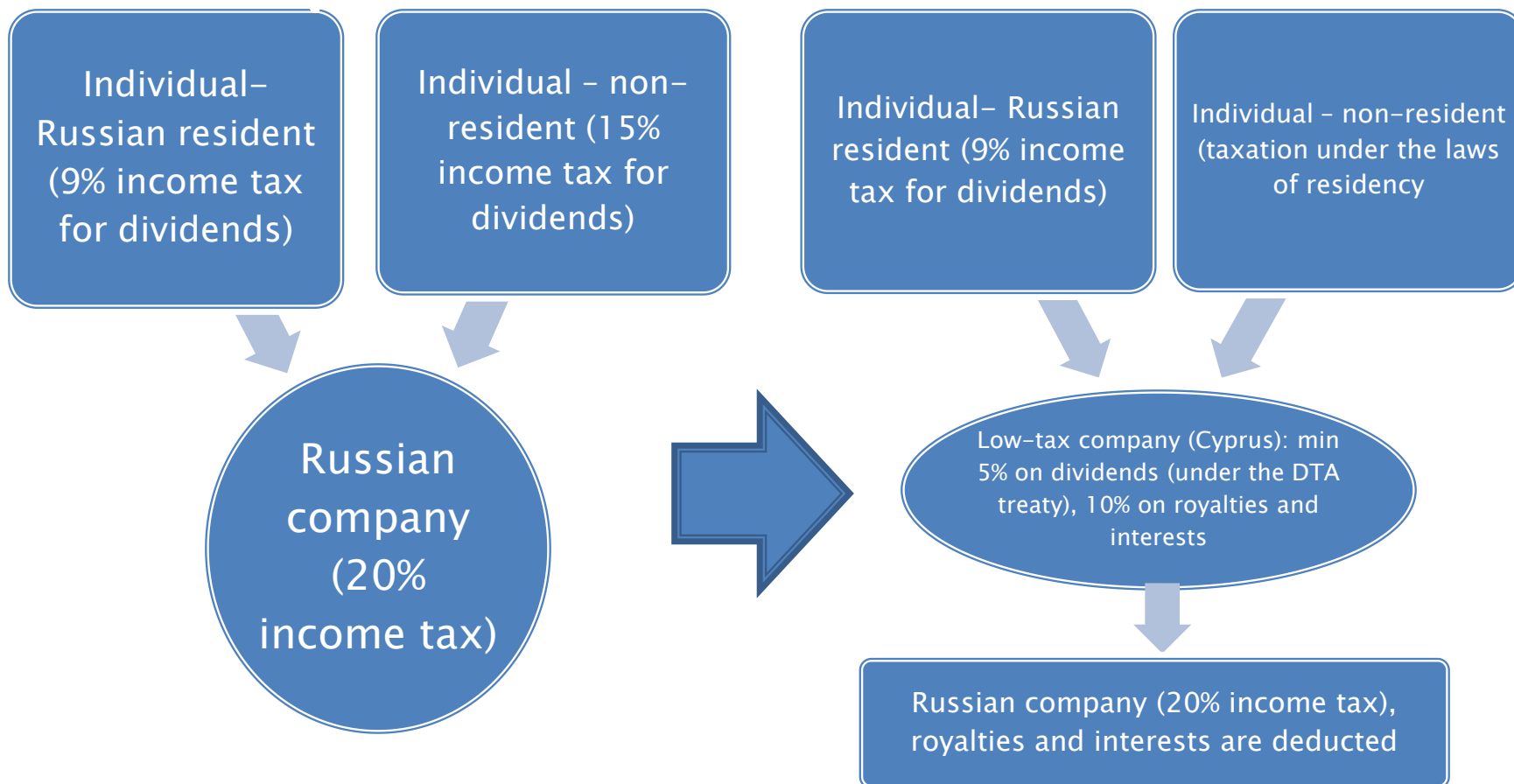


5. Introduction into taxation system (corporate taxation issues)

- ▶ Companies pay corporate tax on incomes (decreased by expenses) at the rate of 20%.
- ▶ Royalties and interests decrease taxation base (deducted as expenses).
- ▶ Property tax is set by local government, it cannot exceed 2,2%.
- ▶ VAT: general rate is 18%.

Russia has 80 DTA treaties (including with low-tax jurisdictions) benefits from which may be used for tax structuring purposes.

5. Interposition of a low-tax company between the operational Russian company and the UBOs



Benefits: 1. Non-disclosure of UBOs;
2. Shareholders' agreement; 3. Possible tax benefits (not many)



6. Public registers

- ▶ Unified State Register of Legal Entities: full extract if provided within 3 days, it includes: name of a company, its registration number, tax identification number, types of activities, address, CEO, members (for LLCs and CJSC), registration in state foundations etc. Limited information can be found on-line at the web-site of Federal Tax Service (registering authority) – see. <http://egrul.nalog.ru/>
- ▶ Unified State Register of Real Estate: full extract can be obtained within 1 week. It has all the information on the real estate object (or a land plot). Limited information also can be found on-line. The land plot and real estate objects can be seen at cadastral map (<http://maps.rosreestr.ru/PortalOnline/>)
- ▶ Commercial courts portal (<http://kad.arbitr.ru>): documents issued by commercial courts since 2009 are available. Claims and other documents may be submitted to the court via on-line uploading. Handy search vehicle.