

## Introduction

### Our Location Offer

Any economy depends on two things: supply and demand. Russia has abundance of highly educated labor (7th in the world with 75 million workers, 99.4% literacy rate, 41 Russian Nobel laureates), land (1st in the world with over 17 million square meters) and resources (belongs to the top ten countries for reserves of most metals, energy resources and others) to supply any venture, and sufficient demand (over 139 million of people) to absorb any niche market products.

Since 2000 to 2010, Russia's GDP growth has averaged 5.3% per year, including the 7.8% fall in 2009. The highest growth was achieved in 2007 (8.5% compared to 6.03% average world economic growth - ROSSTAT Data).

Russia is recognized as the 9th consumer market for its size by World Economic Forum in 2010-2011, domestic consumer market has yet to fully mature as only 14.4% of the adult population have a credit history (World Bank).

The key areas of development for the Russian Federation are innovation and R&D, industrial production of high-technical and energy efficiency goods with an emphasis on telecom equipment and medical devices, renovation of transport and energy infrastructure.

These areas have the lowest FDI restrictiveness index (manufacturing - 19.7%, construction - 18.3 %, distribution - 18.3%, telecom - 28.3%, overall index - 38.4%) and coincide with the types of the special economic zones - special areas with the additional incentives, including lower taxes and special customs regimes. Some forms of encouragement are also offered to companies investing in projects of the federal significance, namely the Innovation center Skolkovo, energy efficiency projects, etc.

To further facilitate foreign investments, industrial territories are formed in Russian regions. The support is offered in form of ready infrastructure, including transportation, connection to electricity grid, water and gas supply, and communication lines. These areas usually have sufficient qualified labor and scientific resources. Some of the more progressive region administrations have started to insure the term projects' launching by refunding to the foreign companies any expenses associated with the late completion of construction.

### Introduction to investment regime

Modernization and innovative progress remain the foremost goals of the Russian government's policies. This necessitates engagement of increasing quantity of investors, innovators and entrepreneurs.

New opportunities for innovative business and venture investment are becoming available as the Innovation centre Skolkovo is commencing its operations.

A sovereign fund to share the risks with foreign investors is to be established. It will carry out joint investment in economic modernization projects in Russia.

Additional measures will be undertaken to establish Moscow as the international financial centre and the nucleus of Russia's financial system. A catalyst is being developed to cultivate the financial markets throughout the post-USSR region, and in Central and Eastern Europe. As an example of a more local measure to improve the incentives for portfolio investing in Russia, the capital gains tax from sale of securities with holding term in excess of 5 years is abolished from January 1, 2011.

The large-scale energy efficiency program that is launched will serve to preserve the resources Russia has. Currently, model projects are underway in many Russian regions, with the new investments exploiting the latest technologies and adhering to the highest energy efficiency standard. The standards are already regulated or are to be regulated soon.

A privatization program has been launched in 2010. According to the plan list of strategic enterprises in Russia is to be cut five-fold. Privatization will occur over the next three years and a total worth of tens of billions of dollars in securities of leading banking, infrastructure and energy companies will be issued.

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For Russia, future holds membership in the WTO, and potentially the OECD. In the past, the Customs Union with Belarus and Kazakhstan that was established 2010, resulted in progress towards a common economic space similar to the EU mode. The process of building a common economic space with the European Union based on the principles of indivisible security and the free movement of people, capital and goods, and a common set of technical standards should bring further prosperity to all countries involved.

Russia will host two major international sports events in 2014 (the Olympic Games), and in 2018 (the Football World Cup). These projects will provide countless opportunities for economic growth, and will be carried out on the principles of state-private partnership.

In order to open access to Russia and allow for inflow of ideas the Russian government will take the bold step of granting automatic recognition to diplomas and degrees from the world's top universities, with hopes of attracting thousands of the world's best scientists and engineers. Moreover, the immigration rules for highly qualified specialists coming to Russia have been recently simplified.

### Investment priority plan/equivalent policy

As it has been previously noted the investment priorities of the Russian Federation are based upon engagement of investors in the areas of: innovation and R&D, industrial production of high-technical goods with an emphasis on telecom equipment and medical devices, energy efficiency, renovation of transport and energy infrastructure, development of financial services.

### More information

<http://www.economy.gov.ru> (Ministry of Economic Development of the Russian Federation)

## Regulation of foreign investment

### Process for foreign entities/nationals to invest in our economy

There are several ways for foreign investors to make capital investments into the Russian economy. The most common is through establishing Russian legal entities.

The Civil Code of the Russian Federation recognizes, the following types of commercial legal entities: general partnership, limited partnership, limited liability company, additional liability company and joint stock companies.

The most common forms of corporate structure are limited liability companies ("LLC") and joint stock companies ("JSC"). An LLC (Russian - OOO) differs from a JSC (Russian - AO) in that its participation units are not considered securities under Russian securities legislation, while shares in a JSC are so considered and are subject to registration with the Federal Financial Markets Services.

The establishment and operations of LLCs and JSCs are governed by Federal Law 14-FZ On Limited Liability Companies of 8 February 1998 (as amended) (the LLC Law) and Federal Law 208-FZ On Joint Stock Companies of 26 December 1995 (as amended) (the JSC Law).

#### Joint Stock Companies

A JSC is a legal entity which issues shares in order to generate capital for its activities. A shareholder is not generally liable for the obligations of the JSC and shareholders are limited to the value of their shares. The corporate governance of a JSC is handled by the general shareholders meeting. The board of directors of a JSC is responsible for the overall management of the company's activities.

#### Limited Liability Companies

LLCs are often used by foreign companies to conduct wholly-owned businesses in Russia. LLC participants are not liable for the LLC's obligations and participants' losses are limited by the value of their respective participation units.

The governing bodies of LLCs and JSCs are similar.

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Registration of a legal entity takes at least 3-5 weeks, including 1-2 weeks for application processing by the registration (tax) authorities. Registration of a JSC requires 4 additional weeks for registration of shares with the Federal Financial Markets Services. Foreign investors will be required to have certain documents legalized, translated or notarized, which can significantly protract the registration period.

Generally, LLCs and JSCs may be established by one participant (individual or legal entity). However, such LLCs and JSCs cannot be established by another solely-owned legal entity. The maximum number of participants in an LLC or CJSC is limited to 50 persons. If the number of participants in an LLC exceeds 50, the LLC must be reorganized as an OJSC or a producing cooperative within one year. A CJSC with over 50 shareholders must be reorganized as an OJSC.

For an OJSC, the statutory minimum charter capital is RUB 1000 \* minimum monthly wage, for a CJSC, it is RUB 100 \* minimum monthly wage. The minimum charter capital for an LLC is RUB 10,000 (USD 330). For an LLC, 50% of the charter capital must be paid by the date of its state registration; the remainder must be paid in full within the first year from the date of state registration. For a JSC, 50% of the charter capital must be paid within three months of state registration; the remainder must be paid in full within the first year from the date of state registration.

Charter capital contributions can be made in monetary form or in kind. Recent changes in Russian legislation allow for the capitalization of debt as a contribution to the charter capital, with the exception of the charter capital of a credit organization.

Ruble and foreign currency accounts can be opened after registration. Prior to registration a so-called "accumulative" account is opened to put forward the charter capital for establishment of the LLC.

A shareholder (participant) of LLC or JSC will pay a state registration duty of RUB 4,000 (USD 130). In addition, there are fees for the translation and notarization of the documents. Professional fees for documents collection, the preparation of organizational documents, and documents submission range from USD 14,700 to USD 20,000.

Information on a company's net assets position is submitted to the authorities and recorded in the Unified State Register of Legal Entities. If a company's net assets on its balance-sheet fall below its share capital, a reduction in stated capital to net asset value is required.

If, for two consecutive years, a company has net assets less than the minimum charter capital required by law, the company is subject to liquidation. In the event that a voluntary liquidation is not undertaken by the shareholders or participants, government authorities may petition a court for liquidation and creditors may demand early termination or the fulfillment of obligations and compensation for losses. In practice, forced liquidation is rare if a company is compliant with its payment obligations (including taxes).

### Foreign legal entities - Branches or Representative Offices

Rather than participating in a Russian entity, a foreign legal entity (FLE) may choose to establish a presence in Russia through a representative office (RO) or branch (Branch).

A RO or a Branch is not a Russian legal entity, but is a legal part of the FLE, and, therefore, the head office bears an unlimited responsibility for the obligations and actions of a RO or a Branch. An RO is authorized to conduct certain "preparatory and auxiliary" activities for the head office. A Branch, on the other hand, is able to conduct all of the activities which the head office itself could perform, including the execution of sales contracts.

The head of a RO (Branch) is appointed by the foreign company and is authorized by the Power of Attorney.

The ROs and Branches of an FLE must be accredited by the appropriate state authority; typically this is the State Chamber of Registration. However, the appropriate authority will depend on the FLE's activities - the Central Bank of the Russian Federation accredits the representative offices of foreign banks, and the Federal Aviation Service accredits the representative offices of foreign aviation companies.

Accreditation is normally granted to a RO for a period of up to three years and to a Branch for up to five years. The accreditation period may be extended. Once accreditation is obtained, a RO or a Branch should register with other state bodies - the Federal State Statistics Services, the tax authorities and the state non-budgetary funds.

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The state registration duty for accreditation of a Branch of a FLE is RUB 120,000 (about USD 4,000). An additional state fee of RUB 15,000 - 60,000 (about USD 500 -2,000) is collected; the amount of the fee depends on the accreditation period. The state fee for the registration of a RO depends on its accreditation period: RUB 30,000-75,000 (about USD 1,000 - 2,500) in each case, plus other smaller fees.

Professional fees for the entire process - document collection, preparation of organizational documents and submission of documents to the registration authorities - typically range from USD 15,000 to USD 19,000.

It normally takes 3-6 weeks to accredit an RO or a Branch. The accreditation process requires preparation, approval, and, in many cases, notarization and apostillation (legalization) of a large volume of documentation. The total time required can exceed the registration period stipulated by the state authorities.

### Licensing

Certain types of business activities can be carried out only on the basis of a special license issued by authorized licensing bodies.

Activities that require licensing are listed in the Federal Law 128-FZ Concerning the Licensing of Certain Types of Activities of 8 August 2001 (as amended).

They include the following:

- Surveyor works and geodesic services.
- Pharmaceutical activities and the production of medicines and medical equipment.
- Development, production, repair, utilization, and trade of weapons and military equipment.
- Overseas and inland waterway passenger and freight transportation.
- Use of highly explosive and hazardous chemical production objects.
- Production, storage, usage and spreading of explosive materials.
- Activities for the turnover of narcotic and psychoactive drugs.
- Production and sale of gambling equipment; gambling business.

Licensing is carried out on a federal and regional level. To obtain a license, an application must be submitted to the licensing authorities. The licensing requirements for most activities are similar. As a general rule, a state duty of RUB 2,600 (USD 85) is charged for the examination of a license application. A state duty ranging from RUB 400 (USD 13) up to RUB 200,000 (USD 6,700) is charged for the award of a license to perform a certain type of activity, depending on the type.

The decision to grant or deny a license is generally made within 45 days of receipt of the application and all accompanying documentation. Regulations on the licensing of certain types of activities may stipulate shorter processing periods.

The term of validity of a license depends on the licensed activity, but, in general, may not be less than five years.

Licenses are issued separately for each type of activity. It is prohibited to transfer a license to another legal entity or individual. A license becomes invalid when an organization is liquidated or it terminates activities as a result of reorganization (unless it is reorganized via transformation), and when the state registration certificate of an individual entrepreneur expires.

Authorized licensing bodies are entitled to suspend a license, if the licensee is administratively liable for violating the licensing requirements and conditions, in accordance with the procedure established by the Russian Administrative Code.

If a regulated activity is undertaken without the appropriate license, an appropriate government agency may apply to courts for liquidation of the company and confiscation of all income derived from the unlicensed activity.

**Does this apply to all investment or, are there differential treatment?**

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There are other procedures to be considered for investments in the Special Economic Zones and Innovation center Skolkovo, which are clarified in the Federal Law 116-FZ On Special Economic Zones of the Russian Federation of 22 July 2005 (as amended) and the Federal Law 244-FZ On Innovation Center Skolkovo of 28 September 2010 (as amended).

### Conditions of investment

Russian legislation limits the types of activities that foreign investors can participate based on the industries that are of strategic value to Russia ("strategic companies" are not the same as licensed activities as they concern the matters of national security) and which carry out, among others, the following activities:

- Exploration and production of mineral resources from federal mines-and-carriers;
- Aerospace activities;
- Activities as a natural monopoly or network company with a dominant position on the Russian market;
- Mass media activities;
- Fishing industry activities;
- Hydro-meteorological and geographical activities;
- Activities related to the use of nuclear and radiation-emitting materials;
- Activities related to the use of encrypting facilities and bugging equipment;
- Military technical activities.

Foreign companies are prohibited from performing transactions which would allow them to control strategic companies (e.g., purchase of more than 50% of the voting shares (participation units) of a strategic company, participation in the regulatory body of the strategic company, etc.).

A number of transactions may be performed by foreign companies after obtaining approval from the state authorities (i.e. purchase of more than 5% of voting shares (participation units) of a strategic company (different thresholds being set for different types of strategic companies)).

Other foreign investors (foreign private companies, foreign individuals or Russian companies controlled by foreign companies or individual(s)) are not prohibited from performing transactions which would entail their control over strategic companies. However, such transactions, among others, must be approved by the state authorities.

Under the new rules, foreign investors in major mineral, oil, and gas projects are limited to just a 10% stake, although they are permitted to acquire a larger shareholding with government approval. Strategic reserves are clearly defined: fields with at least 70 million tons (500 million barrels) of oil or 50 billion cubic meters of gas, and mines with 50 tons (1.6 million ounces) of gold or 500,000 tons of copper.

The investments into strategic companies are governed by the Federal Law 57-FZ On the Procedure for Making Foreign Investments in Economic Companies Which Are of Strategic Importance for Ensuring the Country's Defense Capacity and State Security of 29 April 2008 (as amended).

Special rules are also applicable to capital investments into the automobile sector, specified in Order 73/81/58n On Defining the Notion Industrial Assembly of Motor Transport Vehicles of 15 April 2005 (as amended).

### Investment promotion and facilitation

Though on the federal level there is no investment promotion agency, regional agencies are prevalent in Russia. They form region specific policies for encouraging investments appropriate to the individual strength and weaknesses of the regions, and also work to help foreigners with transition to operating in Russia.

Their areas of experience differ by region, but as a general rule they are able to aid an investor with:

- Starting a business (including building permits, registration and others);

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- Any joint ventures with local businesses;
- Consulting with regards to operations within a certain region.

On the federal level the government sets the direction of the investment policy, encouraging the flows of funds to the Russian economy. Department of Investment Policy and Development of Private-Public Partnerships of the Ministry of Economic Development provides federal support to the necessary changes in legislative and regulatory framework to facilitate the improvement of the investment climate.

In August of 2010, the government established an institute of ombudsman with the intention of aiding the investors. Mr. Shuvalov, the First Deputy Prime Minister of the Russian Federation, is currently serving in this capacity. He has a secretarial organization that resolves investors' problems on daily basis. Any foreign investor can contact him or the Foreign Investment Advisory Council and ask for assistance with an issue. The institute serves to identify systematic problems and correct them accordingly to prevent further hindrance to existing and potential investors. It also serves to promote the accessibility of administrative powers and the flexibility of the investment regime.

Externally, Russia has 56 trade representative offices all over the world. These offices can aid in anything from finding out more about Russian economy, to communicating with Russia. The offices are also a useful resource if there is a problem or a question regarding one of the procedures for investing in Russia.

### More information about the process of investing in our economy

<http://www.economy.gov.ru> (Ministry of Economic Development of the Russian Federation)

## Investment protection

### Protection of property rights and conditions for expropriation

Foreign investors are provided certain guarantees in terms of the property rights to investments in Russia and profits earned on its territory.

According to the Federal Law 160-FZ On Foreign Investments in the Russian Federation, the rights of foreign investors to conduct business activities in Russia and their rights to benefit from the profits gained in Russia cannot be less favorable than those established for national investors. Certain limitations can be placed on foreign investors, but only if these limitations are required for the protection of the constitution; health, rights and lawful interests of citizens; or state defense and security measures.

Foreign investors are generally subject to the same treatment as Russian investors. Restrictions on business activities - licensing, notifications, and permission requirements - apply to both Russian and foreign legal entities.

Foreign investors are guaranteed the full and unconditional protection of their rights and interests. A foreign investor is entitled to a reimbursement of losses caused by an unlawful action or omission of the federal or regional state authorities in accordance with Russian civil legislation.

The property of a foreign investor or a company with foreign participation cannot be compulsorily withdrawn in the event of nationalization or requisition, except in those cases stipulated by Russian federal laws or international laws. In the event of requisition, the cost of the confiscated property would be reimbursed to the foreign investor or company with foreign participation. In the case of nationalization, the cost of the nationalized property and the incurred losses would be reimbursed.

The law also offers foreign investors protection from unfavorable changes in Russian legislation, provided that the foreign investor holds more than 25% of a company's share capital, or the foreign investor of a company engaged in a priority investment project, regardless of the foreign investor's stake in its share capital. Foreign investors are protected against the influence of:

- Newly adopted laws altering customs duties, federal tax rates and contributions to state non-budgetary funds (subject to certain restrictions);
- Amendments to current laws resulting in an increase of the investor's tax burden;
- Any introduced bans and limitations on foreign investments in Russia.

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Such laws would not be applied to the foreign investors during a payback period of an investment project but not for a period exceeding 7 years from the date of the beginning of project funding at the expense of the foreign investor.

### More information

<http://www.economy.gov.ru> (Ministry of Economic Development of the Russian Federation)

### Protection of IPRs

The protection of intellectual property in Russia is regulated by the Civil Code and special laws, including the Law On the Protection of Trademarks, Service Marks and Appellation of Origin of Goods (1992), the Patent Law (1992), the Law On Copyright and Neighboring Rights (1993), the Law On Legal Protection of Software Programs and Databases (1992), the Law On Legal Protection of Topologies of Integrated Microcircuits (1992) and the Law On Achievements in Selection (1993).

Russia is also a signatory to the main international treaties concerning protection of intellectual property. It is a member of the UPOV (International Union for the Protection of New Varieties of Plants). And Russian legislation on protection of intellectual property is consistent with WTO rules and TRIPS Agreement.

According to Article 138 of the Russian Civil Code, intellectual property is a result of intellectual activity and means of identifying a legal entity, manufactured products, performed work and rendered service equated with them, e.g. company names, trademarks, service marks, etc. The use of a product of intellectual activity and the means of identifying that product, which are the subject of the exclusive rights, may be used by third persons only upon the consent of the owner of the rights.

Unlike most Western jurisdictions, Russia's law system is not based on the concept of legal precedence. Hence, although previous rulings can provide a useful guidance, a court needs not to adhere to prior decisions made by other courts of the same level. To date court practice has supported the rights of legitimate intellectual property owners.

Absolute majority of the intellectual property rights infringement cases are heard in arbitration courts. Some arbitration courts (Moscow City Arbitration Court) have a special panel of judges on IP issues. The arbitration procedure is rather fast:

- Decision of the first instance to be taken in 3 months.
- Decision of the second instance - in 2 months.
- Decision of the third instance - in 2 months.

The decision enters into force (is to be enforced by the Court Executive Officers) one month after the date of decision of the first instance. If the decision is appealed with the decision of appeal court (second instance) it becomes effective immediately.

Article 180 of the Russia Criminal Code provides for trademark infringement the punishment of up to 6 years of imprisonment (if infringement is committed on a large scale by an organized group). Article 147 of the Russian Criminal Code provides maximum punishment of 5 years of imprisonment (also involves large fine) for patent infringement - invention, UM, industrial design (if infringement is committed on a large scale by an organized group).

### More information

<http://www.economy.gov.ru> (Ministry of Economic Development of the Russian Federation)

<http://www.rupto.ru> (Federal Service for Intellectual Property, Patents and Trademarks -Rospatent)

### Flow of funds

Russian Federation has a semi-pegged regime, with the value of the ruble determined by a bi-currency basket (the average value of the bi-currency basket RUB 34.59 for January 2011, RUB 35.32 for December 2010 and RUB 36.16 on the 1st of November 2010, which is concurrent to the level as of 1st of January 2010, or approximately the basket composition of dollars - 55 %, euro - 45%).

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The transition to a floating regime is underway, however throughout the 2012 and 2013 the Bank of Russia will continue correcting the exchange rate in accordance to the currency basket.

And if managed, under what circumstances or purposes does your government/central bank intervene?

Bank of Russia interventions are two-fold. They can be classified as targeted intervention - in order to keep the ruble within the designated corridor, and the goal-based intervention, which involves purchase of currency in order to alter the value of the bi-currency basket and hence change the currency peg.

The composition of the basket depends on the policy decided on by the Bank of Russia, which in turn varies according to many factors that contribute to the decision process; the factors and their influence on the decision remain confidential.

According to the movements of ruble within the fluctuating corridor the Bank of Russia allocates appropriate funds for the purchase or sale of the currency. To counterbalance the excessive ruble amounts in commercial banks the Ministry of Finance of the Russian Federation holds auctions on sale of federal bonds (OFZ).

Furthermore, to reduce the exchange rate fluctuations, the Bank of Russia will sometimes intervene both on the border and inside the corridor.

Are there any restrictions on the repatriation of funds related to a foreign investment (e.g. profits, dividends, royalties, loan payments)?

According to the Federal Law 160-FZ On Foreign Investments of 9 July 1999 there are no restrictions of withdrawing the funds from the country, with the stipulation that all the taxes have been paid in accordance with the Russian Laws (DTT or otherwise) on the assets to be repatriated.

The scope of the aforementioned law includes, but is not limited to income derived from dividends (including cash, shares, and other income), repayment of loans paid by companies, and proceeds from sale of shares of commercial entity with foreign participation, proceeds from liquidation of foreign entity in Russia, property rights (intellectual or otherwise) and others.

Further more the above legislation allows for a guarantee that in the case of unfavourable changes in the federal taxes, customs tariffs and contribution to federal funds (exceptions to the listed items are provided in paragraph 9 of the aforementioned law) for investors owning more than 25% of the enterprise, or participating in a priority investment project and in some cases with investment amount in excess of RUB 1 bln (about USD 33 mln), will not be applied for a payback term of the project or up to 7 years from the launch of the project (which ever is less).

### **Mechanisms to review decisions, and settle disputes**

Foreign acquisitions within strategic industries are reviewed by the Federal Antimonopoly Service of the Russian Federation (FAS).

According to the Federal Law 135-FZ On Protection of Competition of 26 July 2006, the antimonopoly authority is obligated to examine the application and to notify the applicant of the decision in writing within 30 days from the date of receipt of the application.

The antimonopoly authority decision takes one of the following forms:

- A satisfactory conclusion on the application if transaction, allows for the deal to be completed.
- A statement of prolongation of the review process of the application due to unusual circumstances of the deal.

The term for prolongation can not be longer than two months.

Any decision that is undertaken by the FAS is posted on its official site with the information about the expected transaction. The interested persons have the right to submit to the FAS the information about the influence of this transaction on the competitive environment.

If FAS decides to satisfy the application it defines a period for consummation of these conditions which cannot exceed nine months. Refusal can occur for if FAS decides that implementation of the transaction will reduce the competitiveness, or if the information provided in the application is unreliable.

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There is no appeal process, but there is an opportunity of resubmitting the application. On this moment there is no practice of resubmission, but it is not legally restricted.

What, if any, mechanism do you have for foreign investors to settle disputes?

In respect to dispute settlement, foreign investors are considered to be equal to the domestic ones and are subject to the national legal framework. They are entitled to protection of their economic interests as third parties in the arbitration courts.

In case of problems especially those caused by the illegal activity (non-activity) of state authorities, local administration and its officers they can also apply to the First Deputy Prime Minister of the Russian Federation Mr. Shuvalov, who is assigned to act as an ombudsman for investors, or to the Foreign Investment Advisory Council.

Russia has signed the Convention On Settlement Of Investment Disputes Between States and Individuals/Legal Entities (Washington, March 18, 1965). So, investment disputes between foreign investors and Russia can be heard in accordance with the procedures set by the Convention, by the Arbitration Court of the International Centre for Investment Dispute Settlement (set up at the International Bank for Reconstruction and Development).

Within the CIS another convention is in force - the Convention On Investor Rights Protection (Moscow, March 28, 1997), under which the disputes are heard in courts or arbitration courts of the countries involved in the dispute, the CIS Economic Court and/or other international arbitration courts.

### ICSID

Russia signed the ICSID Convention on June 16, 1992 but has not ratified it.

### More information

<http://www.economy.gov.ru> (Ministry of Economic Development of the Russian Federation)

### International investment agreements

With;

Albania; Algeria; Angola; Argentina; Armenia; Australia; Austria; Azerbaijan; Belarus; Belgium; Botswana; Brazil; Bulgaria; Canada; China, People's Republic of; Croatia; Cuba; Cyprus; Czech Republic; Denmark; Ecuador; Egypt; Ethiopia; Finland; France; Germany; Greece; Hungary; Iceland; India; Indonesia; Iran, Islamic Republic of; Ireland; Israel; Italy; Japan; Jordan; Kazakhstan; Korea, Republic of; Kuwait; Kyrgyzstan; Lao, People's Democ. Rep.; Lebanon; Libya; Lithuania; Luxembourg; Macedonia, FYR; Malaysia; Mali; Mexico; Moldova, Republic of; Mongolia; Montenegro; Morocco; Namibia; Netherlands; New Zealand; Norway; Philippines; Poland; Portugal; Qatar; Romania; Saudi Arabia; Serbia; Singapore; Slovakia; Slovenia; South Africa; Spain; Sri Lanka (ex-Ceylon); Sweden; Switzerland; Syrian Arab Republic; Tajikistan; Thailand; Turkey; Turkmenistan; Ukraine; United Kingdom; United States; Uzbekistan; Venezuela; Viet Nam; Yemen;

Please provide a brief description of these IIAs, or your IIAs in general.

Foreign investments are well protected by the provisions of the bilateral investment agreements on the mutual protection and incentives for foreign capital investments.

After the break-up of the Soviet Union, Russia formed 11 international investment agreements (with Austria, Belgium and Luxembourg, UK, Germany, Canada, China, South Korea, Netherlands, Finland, France, and Switzerland), and later signed 51 similar agreements with other countries as an independent state.

The common features of the latest agreements are the following:

- The foreign capital investments includes all kinds of property valuables.

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- There is a national treatment of foreign investors and their capital investments.
- The exclusions from the national treatment may exist in connection with participation in a free trade zone or in a customs or economic union; on the ground of agreements on the avoidance of the double taxation or of other agreements on the issues of taxation; by force of agreements signed between Russia and the former members of the USSR.
- The foreign capital investments are not subject to expropriation or nationalization.
- The unhindered transfer of payments abroad is guaranteed to foreign investors after the payment of corresponding taxes in Russia.

### More information

<http://www.economy.gov.ru> (Ministry of Economic Development of the Russian Federation)

## Movement of persons

### Treatment of foreign nations or personnel of foreign firms

The Federal Law 86-FZ On Amending the Federal Law Concerning the Legal Status of Foreign Nationals in the Russian Federation and other legal acts of 1 July 2010 has significantly simplified procedures for the foreign "highly qualified specialists" entering Russia for purposes of employment.

According to the law "highly qualified specialists" are defined as foreign individuals employed in Russia earning over RUB 2 mln per year (around USD 5,600 per month), academics conducting research or teaching and all foreigners employed by companies involved in the project Skolkovo in accordance with the Federal Law 86-FZ On the Innovation Centre Skolkovo earning in excess of RUB 1 mln per year (around USD 2,700 per month).

Procedures for highly qualified specialists and foreigners participating in Skolkovo project include the elimination of quotas and approval of work permits by the employment authorities.

#### Work permits

- issued for up to three years (instead of one);
- may be repeatedly extended for the same period during the term of the foreigner's employment contract;
- issued during 14 days;
- are valid in all Russian regions that are stated in the employment contract.

Work visas are issued for up to three years (instead of one), with a similar procedure to issuing work permits.

Migration registration has to be completed within the first 90 days after entering the country and during 30 days when moving from one region to another. In the case of relocation from one region to another, the employer is no longer required to notify the migration authorities that a foreigner should be de-registered. When a foreign national leaves Russia, de-registration is handled directly by the migration authorities.

An employee's qualifications are assessed by the employer based on the documents provided by the foreign national.

Highly qualified employees and their families may follow a simplified procedure to obtain a permanent residency permit for the period of their employment in Russia.

Following migration procedures are valid for the other categories of employers:

#### Quotas and approvals:

- A quota for work permits is necessary.
- A quota for visa invitations is necessary.
- Work permits must be approved by the employment authorities.

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It takes an average of 12 to 15 months to obtain permission documents. Normally the quota for employing foreign individuals is around 10 people per company.

Work permits are issued separately for each region; it must be extended on an annual basis. Work visas are valid for one year. Migration registration must occur within 7 days of the arrival. Permanent residency permits are not commonly applied for due to the complexity and length of permission procedures.

### More information

<http://www.fms.gov.ru> (Federal Migration Service of the Russian Federation)

## Taxation

### Taxation of foreign nationals and foreign firms

Taxes and levies are imposed in Russia on the federal, regional and local levels. Federal taxes and levies are those established by the Tax Code and Federal Laws and are paid throughout the Russian Federation.

As at 1 January 2010, the following federal taxes and levies were established:

- Value-added tax (VAT);
- Excise tax;
- Personal income tax (PIT);
- Profits tax;
- Mineral extraction tax water tax;
- Levies for natural and biological resources consumption;
- Stamp duty.

Regional taxes and levies are those established by the Tax Code and tax laws of the regions of the Russian Federation and are paid in the appropriate regions. Regional taxes include property tax, gambling tax and transport tax.

Local taxes and levies are those introduced by the Tax Code and regulations of the municipal authorities and are paid in the appropriate municipal areas. Local taxes are represented by land tax and personal property tax.

Local (or regional) legislation may only introduce those types of taxes and levies stipulated by the Tax Code. When doing so, the local (regional) authorities are allowed to establish the following elements of taxation:

- Tax concessions;
- Tax rates, within the limits established by the Tax Code;
- Procedures and deadlines for tax payments.

The Tax Code also provides special tax regimes under which a taxpayer is entitled to pay a single tax rather than a number of taxes. This regime may be applied if certain requirements are satisfied. Special tax regimes include the simplified tax, unified agricultural tax, tax on imputed income and special rules on production sharing agreements.

### Company profits

Taxable profit is calculated as income less expenses as per tax accounts. Income is generally determined on an accrual basis. The maximum profit tax rate is 20%, including 2% paid to the federal budget and 18% to the regional budget. Tax losses can be carried forward for up to 10 years.

## Russian Federation

The Tax Code requires taxpayers (including permanent establishments) to maintain separate accounts for profits tax purposes. The methodology applied for profits tax purposes should be clearly explained in the taxpayer's tax accounting policy. Once chosen, the tax accounting policy may not be changed during the financial year or for even longer periods, except for in those cases specifically referred to in legislation.

### Value Added Tax (VAT)

VAT was designed as a tax to be borne ultimately by consumers, but to be collected through taxable persons similar to the EU model.

The following operations are subject to Russian VAT, if performed in the Russian Federation:

- Sales of goods, work and services;
- Gratuitous transfer of goods, works and services;
- Transfer of goods, work and services for the taxpayer's own consumption in respect of which the incurred expenses are non-deductible for profits tax purposes;
- Self-construction;
- Import of goods into the Russian Federation.

The Tax Code provides for specific VAT "place of origin" rules for cross-border services, depending on their nature.

VAT payable to the budget is determined as output VAT accrued on sales less input VAT invoiced by suppliers and/or paid at customs. Input VAT on imported goods is calculated based on their customs value plus customs duties and excises.

Generally, VAT is payable at a rate of 18%. A reduced VAT rate of 10% applies to medical goods, books, periodicals, foodstuffs and children's clothing (according to the list established by the Russian government). Certain operations (i.e. export of goods, work and services or passenger transportation abroad) are subject to 0% VAT. The Tax Code provides for a number of VAT exemptions, primarily related to financial and social welfare services.

VAT returns should be filed quarterly, while payments are due monthly.

### Social Security

Insurance contributions are levied on companies, individual entrepreneurs and natural persons making payments to individuals under employment contracts and civil contracts for the provision of services or the performance of work and other specific types of contracts, as well as on self-employed individuals, including individual entrepreneurs, notaries and advocates.

Insurance contributions are payable on remuneration and other payments to individuals under the above contracts until the annual threshold for each employee is reached. The 2010 annual threshold for contributions against salary payments to a single employee was set at RUB 415,000 (around USD 14,000). Insurance contributions are not paid on the remuneration of foreign employees temporarily residing in Russia - employees who have migration cards but do not have residency or temporary residency permits.

The insurance contributions have a set of flat rates which in aggregate total 26% (in 2010):

- Pension Fund of the Russian Federation - 20%;
- Social Insurance Fund - 2.9%;
- Federal Mandatory Medical Insurance Fund - 1.1%;
- Territorial Mandatory Medical Insurance Funds - 2%.

Generally, insurance contribution concessions are granted as tax rate reductions. In 2010-2014 reduced rates will apply to agricultural producers, residents of technical-innovative special economic zones, taxpayers applying the simplified tax regime or paying unified tax on deemed income, legal entities employing disabled individuals (provided that certain conditions are met), and others.

Insurance contributions are paid monthly not later than the 15th of the following month.

### Personal income/profits

## Russian Federation

Personal income tax (PIT) in Russia depends on the taxpayer's tax residency status. An individual is considered a Russian tax resident if he/she is physically present in the Russian Federation for a period of 183 days or more during 12 consecutive months. Short-term travel (less than 6 months) outside Russia's borders for medical treatment or educational activities does not interrupt the individual's presence in Russia.

Tax residents are subject to PIT on worldwide income, whereas non-residents are subject to PIT only on Russian-source income.

Taxable income includes income received in cash, in kind, and in a form of deemed income. 13% PIT applies to all types of income, with the following exceptions:

- 9% on dividend income received by residents (both from Russian legal entities (RLEs) and foreign legal entities (FLEs), and also to interest income on specific debt securities;
- 15% on dividend income received by non-residents from Russian companies;
- 30% on the Russian-source income of non-residents (except for dividend income from RLEs);
- 35% on certain types of non-employment income (e.g., deemed income resulting from favorable interest for the use of loans).

A Russian tax resident could benefit from standard, social, property and professional deductions.

Individual entrepreneurs, RLEs, ROs and Branches of FLEs registered in Russia which pay remuneration to individuals are considered tax agents, and they are required to withhold PIT from income payable to such individuals and remit it to the Russian financial authorities. If PIT was not withheld by a tax agent, individuals should file a PIT return and pay PIT with regard to taxable income (unless this PIT has not been paid based on a tax assessment issued by the tax authorities following to the company's reporting). The PIT returns should be filed no later than 30 April of the following year.

### Funds for repatriation

Under the Federal Law 160-FZ On Foreign Investment in the Russian Federation of 9 July 1999 investors are free to take their money outside the country once payment of the taxes and fees as provided in the law of the Russian Federation were made. The other stipulation provided by the law is that the money should be lawfully received.

In addition the above, a foreign investor who has originally imported to the territory of the Russian Federation assets and information in documentary form or in the form of a record on electronic carriers as a foreign investment is entitled to an unimpeded export of the said assets and information out of the Russian Federation.

Is the basis for taxation economy or global? If the basis for taxing is global, with whom do you have tax treaties?

Withholding income tax rates may be reduced to 0% in accordance with double tax treaties concluded between Russia and the country of the factual beneficiary's residence.

An RLE should confirm its residency in a country party to a double tax treaty with the Russian Federation to enjoy the reduced withholding income tax rates. This confirmation is documented by a certificate issued by the relevant foreign authorities.

### More information

<http://www.economy.gov.ru> (Ministry of Economic Development of the Russian Federation)