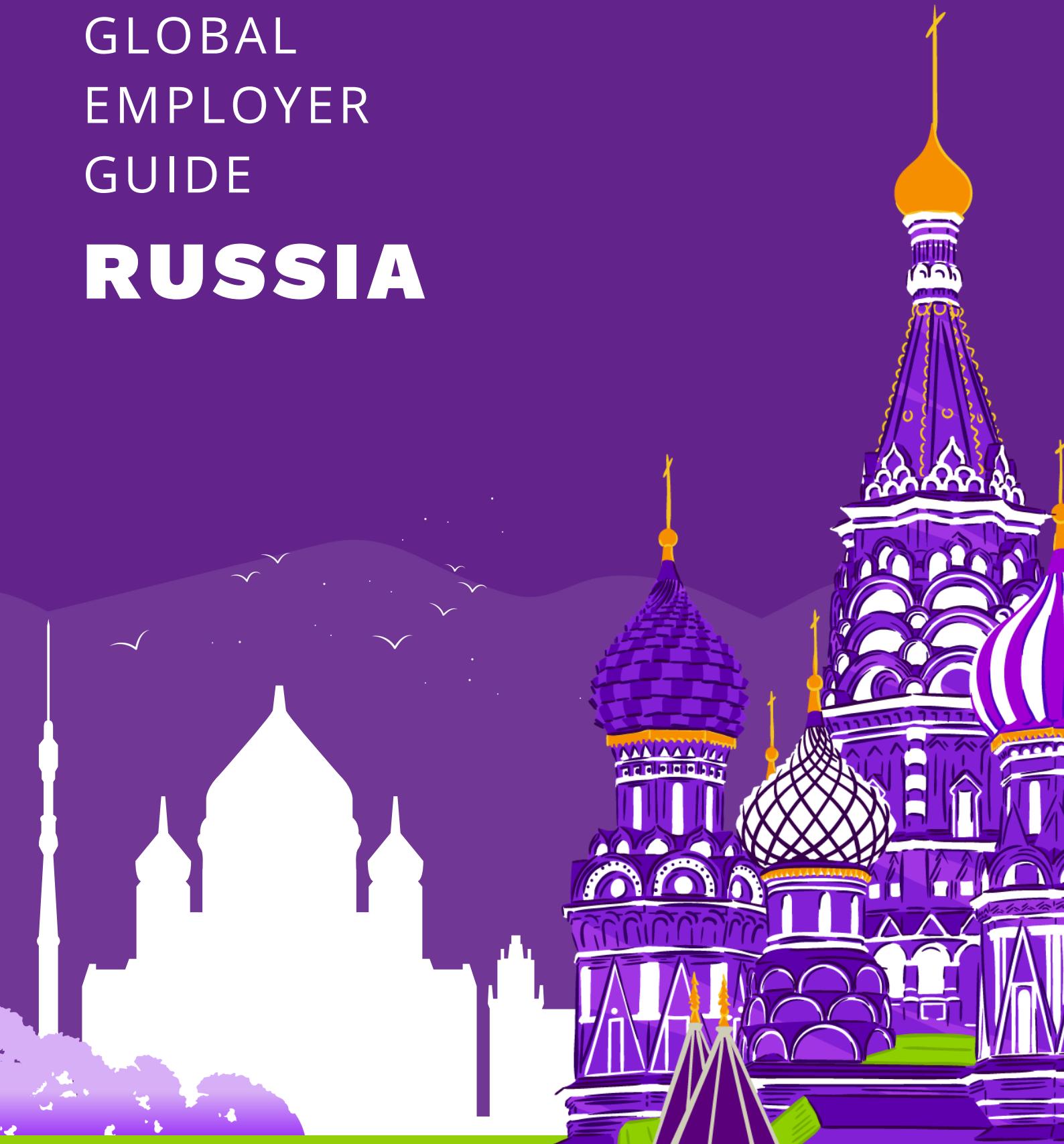




An Equus Software Company

# GLOBAL EMPLOYER GUIDE

# RUSSIA





## Basic Country Facts

### Full name

- Russian Federation

### Capital

- Moscow

### Main Languages

- Russian
- English
- German

### Population

- 144.5 million

### Monetary unit

- Russian Rouble

### Internet domain

- .ru

### International dialing code

- +7

### Currency

- Russian Rouble



# **STATUTORY LABOR REQUIREMENTS**

## **Probation Period**

- The probation period is established at maximum three months and, in case of dismissal during the trial period, a three-day notice is required

## **Annual Leave**

- Employees in Russia are entitled to an annual paid vacation of at least 28 calendar days per one year of work.
- An employee is entitled to use his/her vacation time (in full) once he/she has worked for an employer for at least six months.

## **Public Holidays**

- New Year (1st January)
- Orthodox Christmas Day (7th January)
- Russian New Year (8th January)
- Defender of the Fatherland Day (24th February)
- International Women's Day (9th March)
- Labor Day (1st May)
- Victory Day (11th May)
- Russia Day (12th June)
- Unity Day (4th November)

## **Maternity Leave**

- Maternity leave normally given under Russia labor law is 140 days at 100 percent of the salary – 70 days before the birth and 70 days after.
- This can increase to 194 days in the event of multiple pregnancies or complications – 84 days before the birth and 110 days after it for multiple births (such as twins or triplets) or 86 days after the birth if there are any complications.



- The minimum maternity benefit should be 100 percent of the legal minimum wage up to a legal maximum of 40 hours if in full-time employment, while the total claimed should not be more than R.34,583.
- For a period of 18 months after the birth, the total payable can be 40 percent of the salary.

### **Paternity Leave**

- New fathers in Russia are not guaranteed any paid paternity leave (leave designated specifically for fathers).
- However, 18 months of unpaid leave can be taken by either parent.

### **Sick Leave**

- Under Russia's labor law, workers temporarily unable to work and in need of medical assistance due to illness or accident will receive payment of 60-100% of their salary.
- The exact amount is calculated on the basis of a complex formula.
- The employee must provide proof of illness, such as a doctor's note, upon his or her return to work.

### **Work Hours**

- The work week is 40 hours.

### **Overtime**

- Employees must provide written consent to work overtime.
- Overtime work compensation is paid at a rate of 1.5 times for the first two hours and 2 times the rate for additional hours.
- Overtime work must not exceed 4 hours in two consecutive days, and not over 120 hours per year.

### **Notice Period**

- An employee must give two weeks' notice to the employer.
- An employee who is a chief executive officer or a member of the management board must give notice at least one month before the proposed termination date.
- An employment contract can be terminated before the expiration of the notice period by mutual agreement.





## Severance

- Severance payments depend on the grounds for termination.
- Employees terminated due to liquidation or redundancy are entitled to a severance payment equal to their average monthly wage.
- Additionally, the employer must pay the dismissed employee their average monthly salary during the period they are looking for a new job (but for no longer than two months from the date of termination).
- In exceptional cases, an employee can receive their average monthly salary for a third month following the date of termination, based on a decision of the Employment Agency (if the employee addressed that body within two weeks of dismissal and was not employed).
- An employment agreement or a collective bargaining agreement can provide for a higher severance pay.
- Chief executive officers (CEOs) of a company and members of the management board who are dismissed without cause by a decision of the company's authorized body are entitled to a severance payment equivalent to at least three average monthly salaries.
- This severance payment is limited to three average monthly salaries for CEOs and members of the management board of certain state-owned companies.

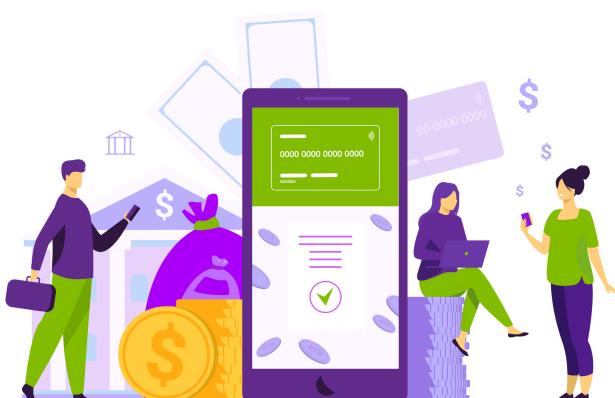
## 13th Month

- Incentive bonuses are common in Russia, and some companies provide a 13th month bonus.

## Income Tax

- Residents are taxed on worldwide income.
- Nonresidents are taxed on Russian-source income only.
- Russian source income includes, but is not limited to, income derived from work or services performed in the Russian Federation, capital gains derived from the disposal of property in the Russian Federation, interest from deposits held in the Russian Federation, rent from property located in the Russian Federation, dividends paid on shares of companies in the Russian Federation, and income in the form of material benefit from certain low-interest loans and from the acquisition of securities or derivatives below fair market value (if Russian-source).
- Employment income consists of compensation received in cash or in kind, including, but not limited to, salary, bonuses, expatriate allowances and taxes paid for the employee by the employer.
- The income of individuals engaged in self-employment activities is subject to income tax.
- Four flat tax rates of 13%, 15%, 30% and 35% apply to different baskets of income.

- 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
- Since currently the tax authorities tend to apply 13% tax only to income directly related to remuneration of an HQS, some benefits and allowances should be treated as taxable at 30%.
- Therefore, taxation of other income received not for work performed as an HQS or income received by tax-nonresident HQSSs from any other employer (for example, outside the Russian Federation for work or services performed by an HQS in the Russian Federation) at a 13% rate may be challenged by the authorities.
- 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 HQSSs
- A flat rate of 35% applies to interest income on Russian bank deposits and coupon (interest) income on certain ruble-denominated traded bonds of Russian companies exceeding the Central Bank's refinancing rate increased by 5 percentage points (or interest income on non-ruble deposits exceeding 9%), certain prizes and deemed income from certain low- or zero-interest loans.





Flat Rate Taxation	
13%	All income for which another rate does not apply
15%	Russian-source dividend income received by individuals who are not tax residents.
30%	Applicable on some HQSs benefits
35%	Interest income on Russian bank deposits and coupon (interest) income on certain ruble-denominated traded bonds



## Social Security

- In 2019, the following rates of social contributions are established for all categories of payers (except those who are entitled to the beneficial social security regime).
  - Payments made with respect to expatriate employees who hold the immigration status of HQS are not subject to accrual of social contributions (except for workplace accident insurance).
  - Payments with respect to expatriate employees holding standard work permits are subject to accrual of contributions to the Social Insurance Fund at a 1.8% rate.
  - After the first six months of accrual of these contributions, these expatriate employees are eligible for social insurance (for example, payment for the period of a sick leave).
- Employers are also obligated to pay a contribution of insurance against accidents at work and work-related diseases.
  - The rate of this contribution varies from 0.2% to 8.5% of the wage fund, depending on the type of activity of the employer.

Income Subject to Social Security Contributions (RUB)	Pension Fund (%)	Social Insurance Fund (%)	Medical Insurance Fund (%)	Total (%)
Up to 865,000	22	2.9*	5.1	30
Up to 1,150,000	22	0	5.1	27.1
Over 1,150,000	10	0	5.1	15.1



# Deductible Expenses

## Employment Expenses

- As of 1 January 2007, an employee's pension contributions to voluntary licensed plans are tax deductible from the taxable base within the limits established for social deductions.

## Personal Deductions

- Donations to certain non-commercial organizations (from 2012) and qualifying charities are deductible from taxable income (within the limit of 25% of the individual's income subject to 13% tax rate [except dividend income]).
- Individuals can deduct from taxable income the costs of their own education in licensed institutions (within the limits established for social deductions) and their children's education in educational institutions (without the limits established for social deductions but not more than RUB 50,000 per child).
- Expenditures incurred by an individual on the acquisition or construction of an apartment or house and related plot land, as well as payment of interest on the respective loans, are allowed as a deduction of up to RUB 2 million with respect to expenditures plus the amount of interest of up to RUB 3 million.

- This once-in-a-lifetime deduction is available only to tax residents.
- Individuals can deduct from taxable income the costs of medical services (for themselves and close relatives) and medicine (generally within the limits established for social deductions).

## Personal Exemptions

- An exemption of RUB 1,400 per month is available for a first and second child and RUB 3,000 for a third and each subsequent child.
- These exemptions are provided until the individual's cumulative annual income reaches RUB 350,000.



Deductible Expenses	
<b>Employment Expenses</b>	<ul style="list-style-type: none"> <li>As of 1 January 2007, an employee's pension contributions to voluntary licensed plans are tax deductible from the taxable base within the limits established for social deductions.</li> </ul>
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# Immigration

- Effective from 1 January 2015, foreign nationals who apply for a work permit, patent, temporary residence permit or permanent residence permit are required to present a certificate confirming their knowledge of Russian language, history and basics of Russian law.
- This requirement does not apply to the processing of work permits and permanent residence permits for highly qualified specialists (HQSSs).
- In general, any foreign citizen who works in the Russian Federation must hold a work permit or patent, and the employer or purchaser of work (services) of such foreign citizen must hold a valid employer permit to engage such an individual (when applicable).

## Work Permit

- The Russian Federation has entered into treaties simplifying the Russian work permit application process with France and Korea (South).
- It is never necessary to obtain a work permit or patent, and permit for the engagement and use of foreign workers with respect to certain workers, including the following:
  - Citizens of Armenia, Belarus, Kazakhstan and Kyrgyzstan
  - Temporary residents of the Russian Federation
  - Permanent residents of the Russian Federation
  - Refugees and individuals with temporary shelter in the Russian Federation

- Employees of diplomatic missions, consulates and international organizations (with respect to their work for such organizations)
  - Employees of foreign legal entities engaged in the installation, installation supervision, servicing, warranty servicing and after guarantee repairs of installed equipment manufactured or supplied by those foreign legal entities
  - Journalists accredited in the Russian Federation
- The procedure applicable for individuals who are not HQSSs and who require a visa to enter the Russian Federation is discussed below.
  - If no exemption applies, the company must submit a forecast to the local Interdepartmental Committee setting out the company's expectations for the number and profile of foreign employees needed in the following year.
  - If the company fails to complete this submission or properly include in it a foreign employee for whom it will apply for a work permit, a refusal to issue a work permit may result.
  - The deadline for submitting a forecast application varies by region.
  - A list of positions that do not require a forecast (quota) approved upfront also exists.
  - The following are the steps for obtaining employer and employee permits with respect to citizens of countries requiring visas to enter the Russian Federation:
    - Applying for a conclusion on the expediency of the engagement of foreign labor from the Federal Employment Service

- Applying for a permit for the engagement of foreign labor from the Ministry of Internal Affairs
- Applying for a work permit for a foreign employee from the Ministry of Internal Affairs

## Patents

- Effective from 1 January 2015, foreign nationals who do not require a visa to enter the Russian Federation (CIS countries) for work purposes must apply for a patent instead of a work permit to perform a labor activity for organizations or individuals.
- The quota system is abolished for these foreign nationals who come from non-visa countries.
- Under the patent system, a foreign national must make fixed advance tax payments to maintain the validity of the patent.
- The monthly amount of such tax payments varies by region.
- The amount of such payments is subject to an adjustment for the deflator coefficient set for the corresponding calendar year.
- Failure to make advance payments leads to an annulment of the patent.
- A patent is issued to a foreign national for the duration of one month with the possibility of further renewal for a period of up to 12 months, provided that a signed employment or civil-legal contract exists.
- The following essential documents are required for an application for a patent:
  - A voluntary medical insurance policy
  - Medical certificates on the absence of drug abuse and infectious diseases
  - Certificate of Russian language proficiency, and knowledge of the history and basics of Russian law

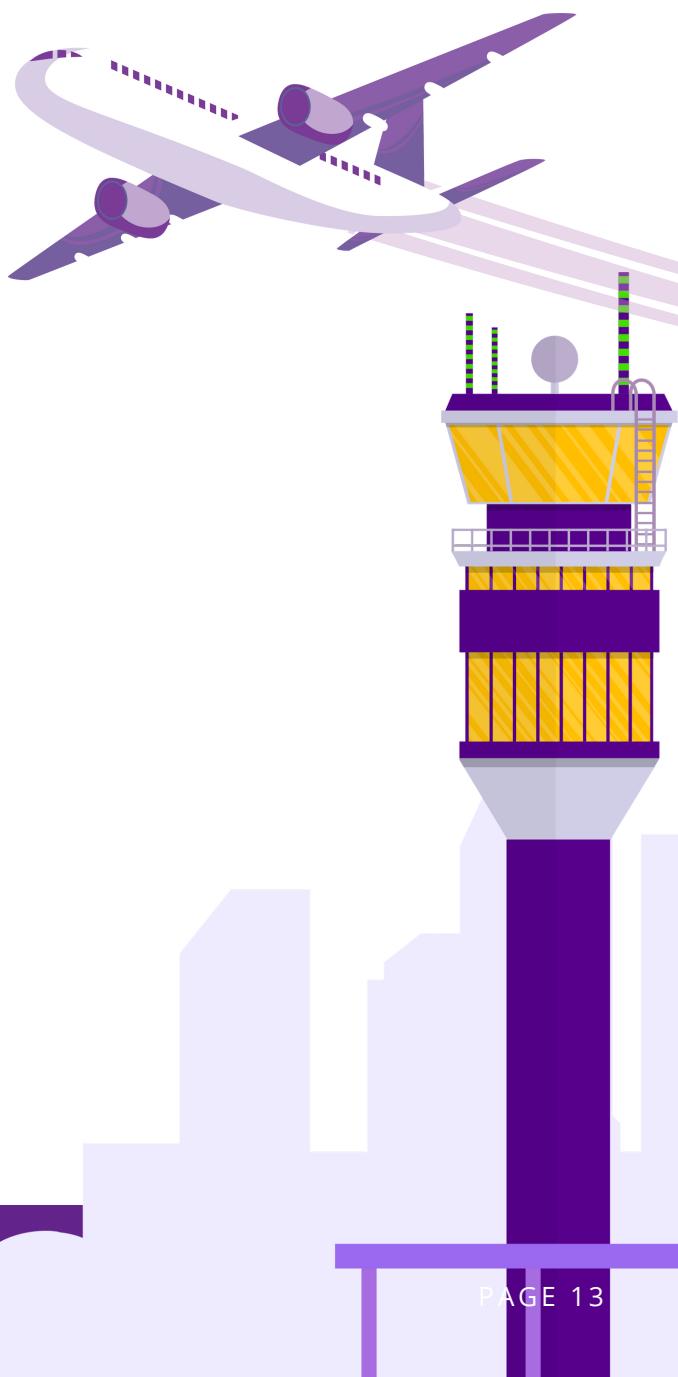
## Residence Permits

- Foreign citizens in Russia may have one of the following three statuses:
  - Persons temporarily located in the Russian Federation
  - Temporary residents (those who hold temporary residence permits)
  - Permanent residents (those who hold permanent residence permits)
- The first status, which is the default status if one does not apply for and obtain a residence permit, is by far the most common status of expatriates working in the Russian Federation.
- Temporary residence permits are issued within quotas established by the government on an annual basis and are valid for three years.
- A permanent residence permit may be issued to a foreign individual on the basis of a valid temporary residence permit no later than six months before the expiration of the temporary residence permit.
- A permanent residence permit may be issued to an HQS (see Section J) based on an HQS work permit only (it is not necessary to first apply for a temporary residence permit).
- A permanent residence permit is issued for five years and may be extended for the same period an unlimited number of times.



## **Special regime for Highly Qualified Specialists**

- A beneficial immigration regime is available for highly qualified foreign nationals working in the Russian Federation who are employed by Russian companies or Russian branches and representative offices of foreign companies.
- These individuals are referred to as HQSs.
- For this purpose, an HQS is a person who receives earnings not less than RUB167,000 per month for work performed in the Russian Federation (with a minor exemption applicable for limited categories of employers; that is, a decreased amount of the monthly salary for HQSs employed by companies operating in particular fields).
- A simplified quota-free, one-step application procedure for work permits and visas is established for HQSs intending to work in the Russian Federation.
- HQSs may apply for work permits and work visas that are valid for three years with the opportunity to extend their validity for subsequent three-year periods, as compared to one-year work permits and visas received by other foreigners.
- Employers engaging HQSs are required to notify the immigration authorities on a quarterly basis with respect to the fulfillment of the obligations regarding the payment of earnings (remuneration) to HQSs.
- The notification must be sent no later than the last working day of the month following the reporting quarter.
- HQSs and their accompanying family members (if any) must have private medical insurance valid in the Russian Federation, which can be arranged either by HQSs or their employers. The immigration law also contains a requirement for employers engaging HQSs to submit quarterly reports to the immigration authorities on salaries and remuneration paid to HQSs.



Type of Visa/ Permits	Documentation	Validity	Eligibility
<b>Work Permit</b>	<ul style="list-style-type: none"> <li>• Valid Passport</li> <li>• Visa invitation of the Ministry of Interior of the Russian Federation</li> <li>• Letter from the employer</li> <li>• HIV Test (AIDS) Certificate</li> <li>• Health insurance policy document</li> </ul>	1 year (can be extended)	<ul style="list-style-type: none"> <li>• Foreigner nationals who have an employment contract with a Russian company must apply for a work permit</li> <li>• Foreign nationals who apply for a work permit are required to present a certificate confirming their knowledge of Russian language, history and basics of Russian law.</li> <li>• This is subject to a labor quota</li> </ul>
<b>Patent</b>	<ul style="list-style-type: none"> <li>• A voluntary medical insurance policy</li> <li>• Medical certificates on the absence of drug abuse and infectious diseases</li> <li>• Certificate of Russian language proficiency, and knowledge of the history and basics of Russian law</li> <li>• Valid Passport</li> </ul>	Maximum 12 months	<ul style="list-style-type: none"> <li>• Effective from 1 January 2015, foreign nationals who do not require a visa to enter the Russian Federation (CIS countries) for work purposes must apply for a patent instead of a work permit to perform a labor activity for organizations or individuals.</li> <li>• Effective from 1 January 2015, foreign nationals who apply for a patent are required to present a certificate confirming their knowledge of Russian language, history and basics of Russian law.</li> </ul>
<b>Special Regime for Highly Qualified Specialists</b>	<ul style="list-style-type: none"> <li>• Application on issuing invitation</li> <li>• Letter of guarantee</li> <li>• Passport copy of a foreign employee</li> <li>• Copy of labor contract</li> <li>• Colored photo</li> </ul>	3 years	<ul style="list-style-type: none"> <li>• A beneficial immigration regime is available for highly qualified foreign nationals working in the Russian Federation who are employed by Russian companies or Russian branches and representative offices of foreign companies.</li> <li>• For this purpose, an HQS is a person who receives earnings not less than RUB167,000 per month for work performed in the Russian Federation (with a minor exemption applicable for limited categories of employers; that is, a decreased amount of the monthly salary for HQSs employed by companies operating in particular fields).</li> </ul>

## Value Added Tax (VAT)

- Starting from 1 January 2019, the standard value-added tax (VAT) rate is 20% (with a lower rate of 10% for certain basic foodstuffs, children's clothing, medicines and medical goods, and printed publications).

VAT Rates	
Standard Rates	20%
Reduced Rate	10%



# Withholding Tax

## Dividends

- Dividends paid to a foreign entity or to a nonresident individual are subject to a 15% withholding tax, unless the rate is reduced under a tax treaty.
- A reduced withholding tax rate of 5% applies until 2029 to dividends paid by a public international holding company to its foreign corporate shareholders
- Dividends paid to resident entities and individuals generally are subject to a 13% final withholding tax
- The rate is 0% on dividends paid to domestic entities where the participation exemption applies

## Interest

- Interest paid to a nonresident legal entity is subject to a 20% withholding tax, unless the rate is reduced under a tax treaty
- Russian companies are exempt from the withholding obligation on Russian source income of foreign legal entities within Eurobond-like structures, under certain conditions.
- Interest paid to nonresident individuals is subject to a 30% withholding tax, unless the rate is reduced under a tax treaty
- Interest paid to resident companies is not subject to withholding tax

- Interest paid to resident individuals generally is subject to a 13% final withholding tax, although in certain circumstances the tax is not withheld at source but is payable by the individual after submission of the annual individual tax return

## Royalties

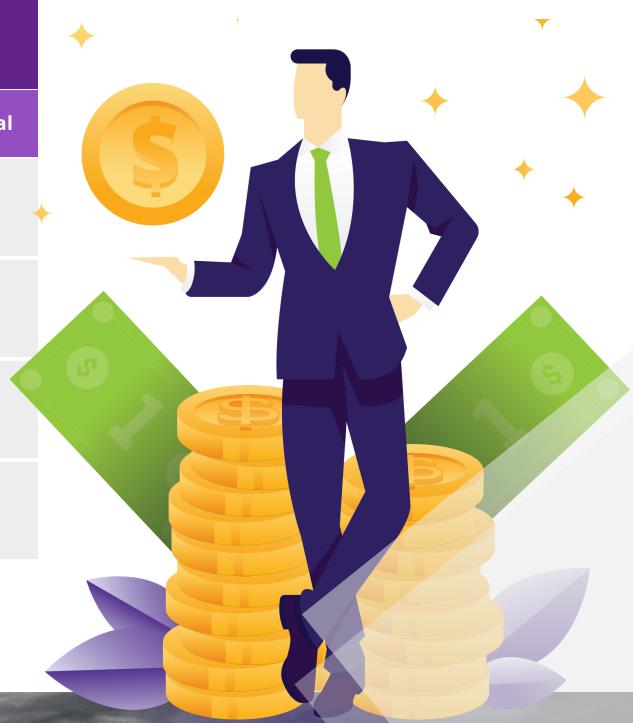
- Royalties paid to nonresident legal entities and individuals are subject to withholding tax at 20% and 30% respectively, unless the rate is reduced under a tax treaty
- Royalties paid to resident legal entities are not subject to withholding tax
- Royalties paid to resident individuals generally are subject to a 13% final withholding tax, although in certain circumstances the tax is not withheld at source but is payable by the individual after submission of the annual individual tax return

## Fees for Technical Services

- Russia generally does not impose withholding tax on fees for technical services



Type of Payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%/13%	13%	5%/15%	15%
Interest	0%	13%	20%	30%
Royalties	0%	13%	20%	30%
Technical Service Fee	0%	0%	0%	0%



## Termination

- An employee must give two weeks' notice to the employer.
- An employee who is a chief executive officer or a member of the management board must give notice at least one month before the proposed termination date.
- An employment contract can be terminated before the expiration of the notice period by mutual agreement.
- Severance payments depend on the grounds for termination.
- Employees terminated due to liquidation or redundancy are entitled to a severance payment equal to their average monthly wage.
- Additionally, the employer must pay the dismissed employee their average monthly salary during the period they are looking for a new job (but for no longer than two months from the date of termination).
- In exceptional cases, an employee can receive their average monthly salary for a third month following the date of termination, based on a decision of the Employment Agency (if the employee addressed that body within two weeks of dismissal and was not employed).
- An employment agreement or a collective bargaining agreement can provide for a higher severance pay.



- Chief executive officers (CEOs) of a company and members of the management board who are dismissed without cause by a decision of the company's authorized body are entitled to a severance payment equivalent to at least three average monthly salaries.
- This severance payment is limited to three average monthly salaries for CEOs and members of the management board of certain state-owned companies.



## Statutory Benefits

- These are mandatory benefits as postulated by law
- These include probationary period, annual leave, public holidays, sick leave, maternity leave, overtime pay, severance pay and 13th month pay.
- Statutory benefits also include social security benefits

### Statutory Benefits

Probationary Period

Annual Leave

Public Holidays

Maternity Leave

Sick Leave

Overtime Pay

Severance Pay

Social Security Contributions



## Payments and Invoicing

- There is no provision for a taxable year other than the calendar year.
- Tax in respect of employment earnings and certain other payments must be withheld at source by the entity making the payment, if this entity is a tax agent.
- This includes tax on income from the performance of labor under civil law contracts.
- Individuals receiving income from foreign sources and some other types of income from which tax is not withheld at source (unless tax agent properly reported under withholding tax to tax authorities) are responsible for the declaration of taxable income and payment of Russian tax.
- Declarations of income must be submitted no later than 30 April following the reporting year.
- Joint returns for a husband and wife are not permitted.
- In the case of termination of a foreign national's activities in Russia, declaration of actual income received during the period of stay in Russia must be made one month prior to permanent departure from Russia.
- The PIT payment is generally due no later than 15 July of the year following the reporting year.
- The payment needs to be made either in cash or from a ruble account opened with a Russian bank.
- As a rule, it is not possible to make payments in a foreign currency.
- Tax overpaid may be, at the taxpayer's request, either refunded or credited against future liabilities.
- Tax may be paid by a third party on behalf of a taxpayer.
- An individual entrepreneur under the general tax regime is obligated to make three advance payments: on 25 July, on 25 October, and on 25 January.
- The balance of the tax due is to be paid on 15 July.
- Tax on professional income is payable on a monthly basis in accordance with a tax notice issued by the tax authorities.
- If the tax was not withheld at source by a Russian tax agent and the agent properly informed tax authorities on this issue, then the tax shall be paid no later than 1 December of the year following the reporting year on the basis of tax assessment issued by tax authorities.





## Ease of Doing Business

- The ease of doing business index is an index created by Simeon Djankov, an economist at the Central and Eastern Europe sector of the World Bank Group.
- Higher rankings (a low numerical value) indicate better, usually simpler, regulations for businesses and stronger protections of property rights.
- According to the World Bank Russia ranked 28th in the World in 2019 in terms of ease of doing business.



# GLOBAL EMPLOYER GUIDE **RUSSIA**



**GX GLOBAL  
EXPANSION**  
An Equus Software Company