

## Companies with Foreign Capital Will Be Able to Enjoy Benefits for Small and Medium Business Entities

Newsletter

21 August 2018

Currently a Russian subsidiary of a foreign company is not regarded as a small or medium-sized enterprise (hereinafter also SME) in case the foreign participation in its authorized capital exceeds 49%. It means that a de-facto small or medium business entity is not entitled to enjoy the benefits granted to SMEs, i.e. special tax regimes, rare inspections, etc.

Starting from **1 December 2018** this limitation will no longer be in force.<sup>1</sup>

### 1. NEW REGULATION

If a company meets the statutory criteria of the average number of staff and the level of revenue, it will be considered as an SME regardless of the size of a foreign participant's share in its authorized capital.

Please note that in this case:

- ▶ The foreign participant shall also **meet the criteria of** an SME in Russia;
- ▶ The foreign participant **cannot be an offshore company**.<sup>2</sup>



**Unless the foreign participant meets the criteria of small- and medium-sized enterprises, its Russian subsidiary cannot obtain the status of an SME.**

#### **Criteria of a small-sized enterprise**

- ▶ Average number of staff – up to 100 employees;
- ▶ Revenue for the previous calendar year – up to RUR 800 mln.

#### **Criteria of a medium-sized enterprise**

- ▶ Average number of staff – 101-250 employees;
- ▶ Revenue for the previous calendar year – up to RUR 2 bln.

Foreign companies will confirm their compliance with the criteria of small- and medium-sized business entities **based on the audit report**.

Please note that there remain formalities to be observed by a company in order to receive the status of an SME: a company must be included into a special register.

## 2. BENEFITS FOR SMEs

- ▶ Special tax regimes, providing for reduction of taxes and simplified accounting;
- ▶ Encouragement and benefits in case of procurements;
- ▶ Abolition of planned inspections for small business entities in 2018;
- ▶ Preemption right for purchase of public or municipal property under lease;
- ▶ Subsidies for emerging small business entities;
- ▶ The Administrative Offences Code of the RF grants a benefit to SMEs in case of commission of an administrative offence for the first time: under particular circumstances, the fine can be replaced with an administrative warning.

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<sup>1</sup> Federal Law No.313-FZ as of 03.08.2018 “On Introduction of Amendments in the Federal Law “On Developing Small and Medium Business Entities in the Russian Federation”;

<sup>2</sup> Offshore company is an entity incorporated in an offshore jurisdiction. The off-shore jurisdictions are listed in the Order of the Ministry of Finance of the Russian Federation No. 108n of November 13, 2007 "On Approval of the List of Countries and Territories Providing Preferential Tax Regime and (or) not Requiring the Disclosure of the Financial Operations (Offshore Zones)".