

VOLUNTARY LIQUIDATION IN RUSSIA

OVERVIEW OF PROCEDURES AND ACTIONS WHEN EXITING THE RUSSIAN MARKET

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Business Sweden Moscow

LIQUIDATION OF A LEGAL ENTITY IN RUSSIA

OBJECTIVE

- ▶ The objective of this guide on voluntary liquidation in Russia, is to provide an overview of the process in order to support Swedish companies in taking the correct decisions on liquidation and understand time frames

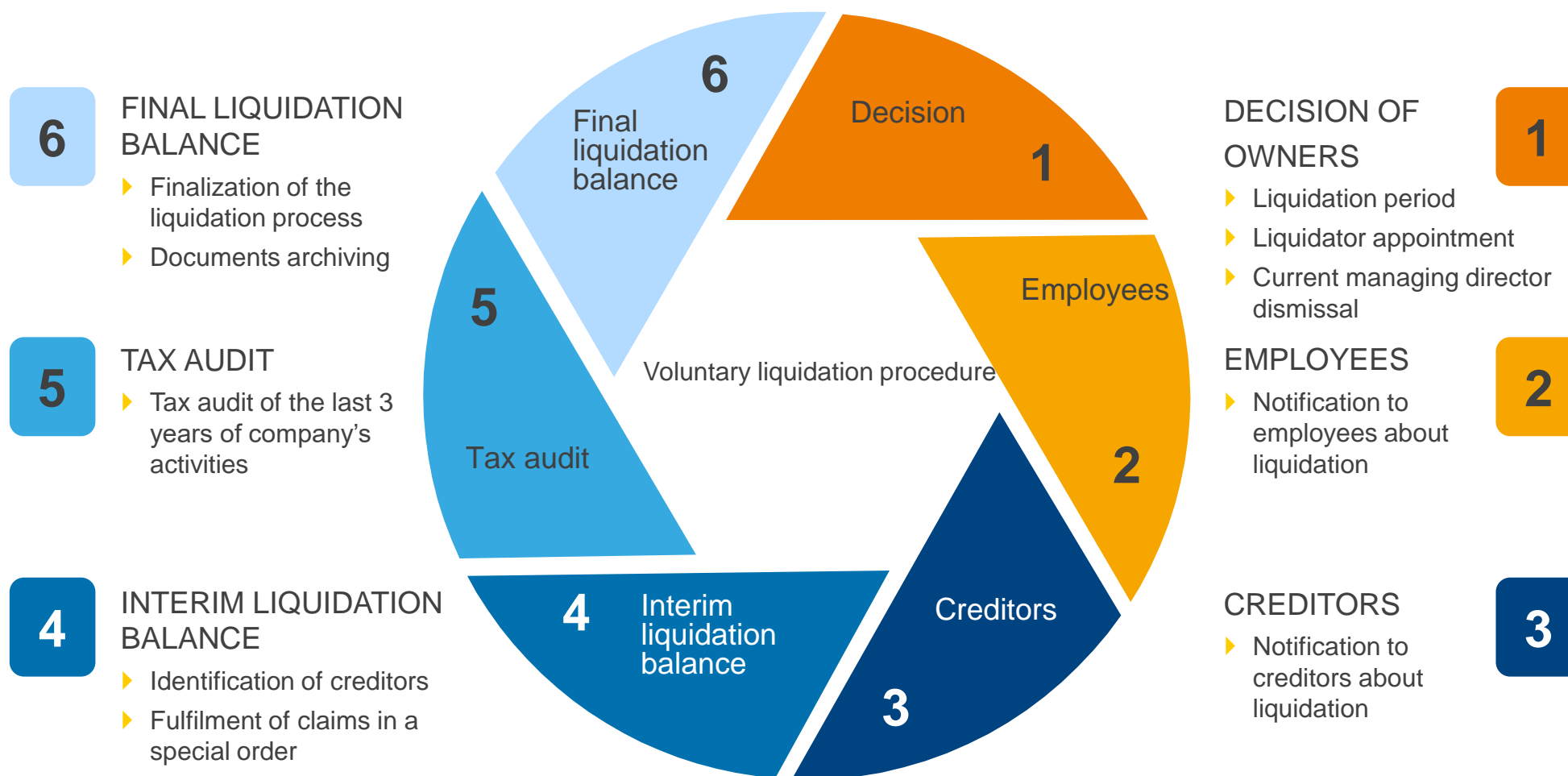
STRUCTURE AND CONTENT

- ▶ The Russian legislation defines three ways of liquidating businesses in Russia
- ▶ In this report we concentrate on the most common and general form of liquidation – *voluntary liquidation* by the example of a limited liability company LLC

Voluntary liquidation	Court decision	Insolvency (Bankruptcy)
<ul style="list-style-type: none"> ▶ Voluntary liquidation process is initiated by the decision of the founders (owners) ▶ Voluntary liquidation procedure should be completed within 12 months after the decision on liquidation is registered in the tax authorities ▶ Otherwise, after 12 months the process will be stopped and only restarted from scratch after another 6 months ▶ It takes 6-12 months on average to complete voluntary liquidation procedure 	<ul style="list-style-type: none"> ▶ The court can take a decision to liquidate a company in case of large violations of the law made in the establishment, where these violations cannot be eliminated ▶ Or because of the performance of an activity without a proper permit (license) ▶ Or of an activity, prohibited by the law ▶ The claim for the liquidation is filed to the court by state bodies 	<ul style="list-style-type: none"> ▶ The legal entity may be recognized by a court decision as insolvent (bankrupt), if it is incapable to satisfy creditors' claims ▶ The recognition of the legal entity to be bankrupt shall entail its liquidation ▶ Simplified bankruptcy of legal entity could be applied if the decision about liquidation is already taken and there are no funds to fulfil creditors' claims ▶ Simplified bankruptcy procedure is finalized within 6 months period

Not taken into consideration in this report

IT TAKES 6-12 MONTHS ON AVERAGE TO COMPLETE VOLUNTARY LIQUIDATION PROCEDURE



SOURCE: BUSINESS SWEDEN ANALYSIS



VOLUNTARY LIQUIDATION IS INITIATED BY THE OWNERS OF THE COMPANY



12 MONTHS COUNTER STARTED

Minutes of an extraordinary General Meeting of Participants



Liquidator / Liquidation Committee responsibilities



Registration of the liquidation process initialization in the tax authorities

- ▶ Decision on voluntary liquidation process and timeframes
- ▶ Termination of the powers of the General Director
- ▶ Appointment of the Liquidator or the Liquidation Committee

- ▶ Organization of the liquidation procedure
- ▶ Inventory of assets and obligations performance
- ▶ Debts collection and payments settlement
- ▶ Transfer of remaining assets to the participants

- ▶ Notification to the tax and other state authorities on taking the decision on voluntary liquidation
- ▶ Registration of the liquidator instead of general director in the state register (can be the same person)



STAFF SHOULD BE NOTIFIED ABOUT LIQUIDATION 2 MONTHS BEFORE THE DISMISSAL DATE

	OPTION 1 – NOTIFICATION ON LIQUIDATION		OPTION 2 – MUTUAL AGREEMENT	
	COSTS	DESCRIPTION	COSTS	DESCRIPTION
During 2 months after notification	<ul style="list-style-type: none">▶ Ordinary salary for 2 months	<ul style="list-style-type: none">▶ Notification is to be signed by every employee▶ The State Labor Inspectorate should be notified		<ul style="list-style-type: none">▶ Mutual agreement is a much easier procedure than notification on liquidation
In 2 months after notification	<ul style="list-style-type: none">▶ 1 average salary and compensation for unused vacation	<ul style="list-style-type: none">▶ Final payment of salary, compensations and unused vacation as well as social taxes is done prior the last working day	<ul style="list-style-type: none">▶ As much as you agree upon plus compensation for unused vacation	<ul style="list-style-type: none">▶ Allows company to settle different dismissal dates for the employees
In 3 months after notification	<ul style="list-style-type: none">▶ 1 average salary in case the employee hasn't started a new job	<ul style="list-style-type: none">▶ The employee should prove that a new job hasn't been started by presenting 'working book'		<ul style="list-style-type: none">▶ No notification of the State Labor Inspectorate is required

THINK IN ADVANCE ABOUT STAFF AVAILABILITY TO FINALIZE OPERATIONS AND PASS TAX AUDIT

SOURCE: LABOR CODE



A TWO-MONTH NOTICE PERIOD FOR CREDITORS IS REQUIRED

- ▶ A public notification must be submitted to an authorized mass media source, to notify all the company's creditors on liquidation as well as on terms and conditions for the claiming period

<Example of the publication text>

<Company name>

<State registration number>

<VAT registration number>

<Code of reason for registration>

<Address>

notifies that the general meeting of participants of <Company name> (Minutes No. From) decided to liquidate <Company name>. The claims of the creditors of the company can be declared within 2 months from the date of publication of this message to the address:

<Address>

<Telephone>

<e-mail address>

- ▶ Besides the public notification to creditors, the Liquidator shall take measures to identify creditors and notify the creditors in writing on the liquidation
- ▶ Termination of existing contracts due to the liquidation of a legal entity could also be required
- ▶ During the notification period all payments directed to the operational life of the company during the liquidation period or are related to the liquidation procedure can be carried out without any restrictions
- ▶ The notification shall be posted in the Bulletin of State Registration at <http://www.vestnik-gosreg.ru/publ/vgr/>



INTERIM LIQUIDATION BALANCE IS PREPARED AFTER ALL CREDITOR'S ARE IDENTIFIED

- ▶ Interim liquidation balance fixes all creditors' claims that were identified during notification period
- ▶ The company in liquidation is obliged to settle all its creditors' claims in accordance with the following order:



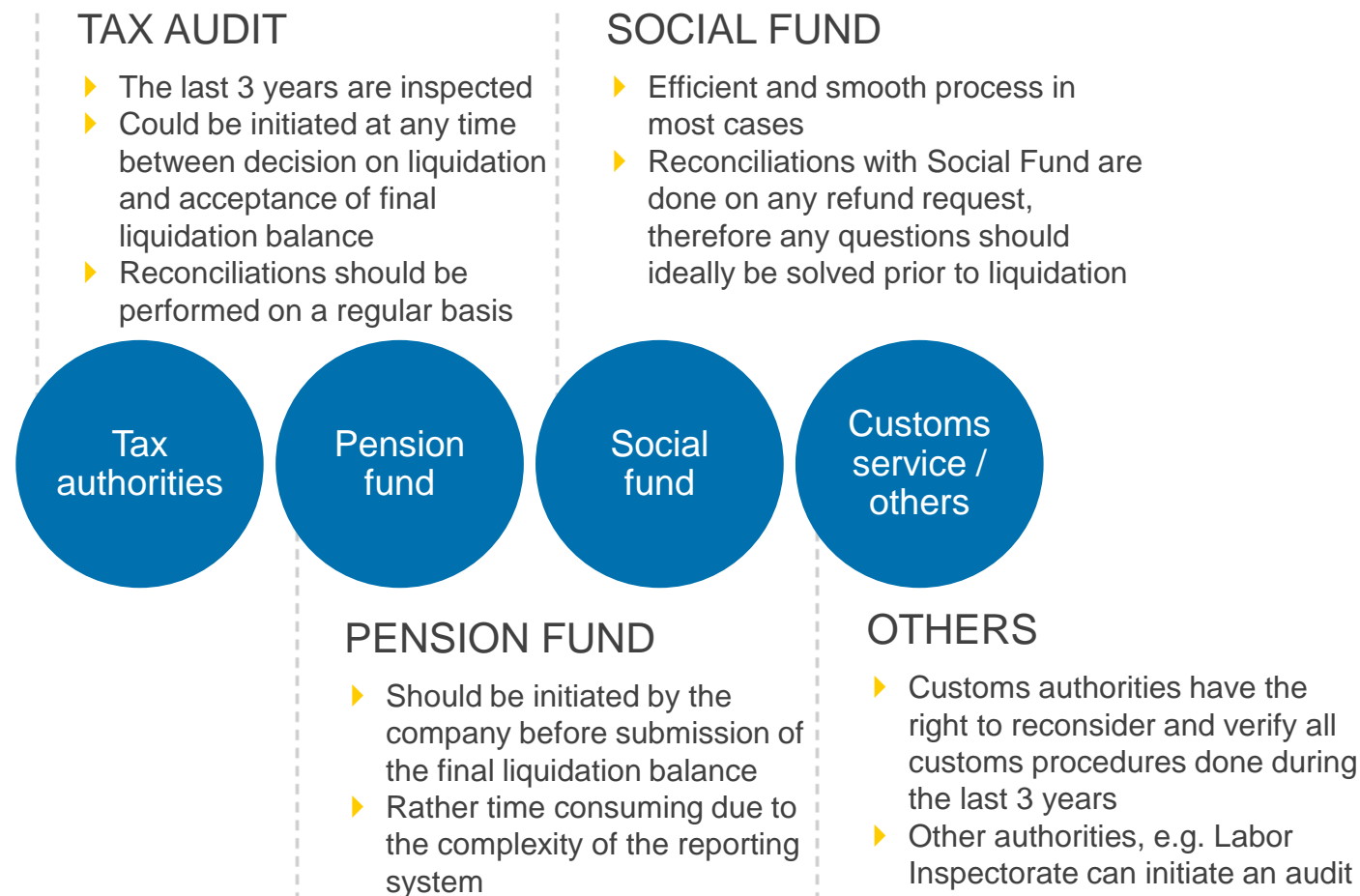
- ▶ Interim liquidation balance should be approved by the company's participants or their attorneys
- ▶ The liquidator applies to the tax authorities for the registration of the interim liquidation balance, notary verification of the application is required

PAYMENTS DONE IN CONTRADICTION TO THE SETTLED ORDER IS TREATED AS A VIOLATION OF THE LAW

SOURCE: CIVIL CODE, LLC LAW



TAX AUDIT IS THE MAJOR ISSUE THAT OFTEN DELAYS THE LIQUIDATION PROCESS



COMPANIES IN LIQUIDATION CONTINUE SUBMITTING REPORTS TO AUTHORITIES EVEN WITH ZERO NUMBERS

SOURCE: BUSINESS SWEDEN ANALYSIS



CHECK THAT ALL STEPS ARE FINALIZED BEFORE SUBMITTING FINAL LIQUIDATION BALANCE

Checklist

▶ No claims from authorities	✓
▶ No staff issues	✓
▶ No debts towards creditors	✓
▶ No court issues	✓
▶ No fines and penalties	✓
▶ Assets transferred to the shareholders	✓
▶ No money on the bank accounts left	✓
▶ Bank accounts are closed	✓

Submit final liquidation balance

- ▶ Final liquidation balance should be approved by the company's participants or their attorneys
- ▶ The liquidator applies to tax authorities for a registration of the final liquidation balance
- ▶ Notary verification of the application is required

**The result is available in 5 working days
If positive – company is successfully liquidated**

Final steps that are sometimes overlooked

- ▶ De-registration in Pension Fund, Social Fund and Statistics authority
- ▶ Archiving and storage of company's documents according to the state regulations and terms
- ▶ State archiving of the HR documents including personal information, wages and social charges for 65 years



THROUGHOUT THE LIQUIDATION PROCESS BUSINESS SWEDEN CAN GUIDE, COORDINATE AND EXECUTE

PREPARATIONS

- ▶ Company documents analysis
- ▶ Drafting Decision (Minutes of the meeting) of the participants on liquidation
- ▶ Appointment of the Liquidator and identification of his responsibilities

STAFF

- ▶ Labor agreements termination
- ▶ Dismissal procedure, notification of employees
- ▶ Drafting the mutual agreements
- ▶ Notification of the State Labor Inspectorate
- ▶ Checking the calculation of payments and compensation to employees upon dismissal

LEGAL SERVICES

- ▶ Preparation of a set of documents for liquidation of the company
- ▶ Notification of the tax and other authorities on liquidation
- ▶ Notification of creditors (publication in mass media)
- ▶ Termination of the existing agreements due to the liquidation

ACCOUNTING AND AUDIT

- ▶ Preparation and submitting of the reports to the authorities during the liquidation
- ▶ Preparations for the tax audit
- ▶ Reconciliations with tax authorities and funds
- ▶ Drafting and submission of a liquidation balance

BANK

- ▶ Settlement of creditors' claims in a certain order
- ▶ Coordination of repatriation of assets to the shareholders
- ▶ Support with closing of the bank accounts

ARCHIVING

- ▶ Preparation and submission set of documents to the State Archive

BUSINESS SWEDEN IS WELL-POSITIONED TO SUPPORT YOUR BUSINESS ACTIVITIES WORLDWIDE



THANK YOU!

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