

# DOING BUSINESS

IN BELARUS

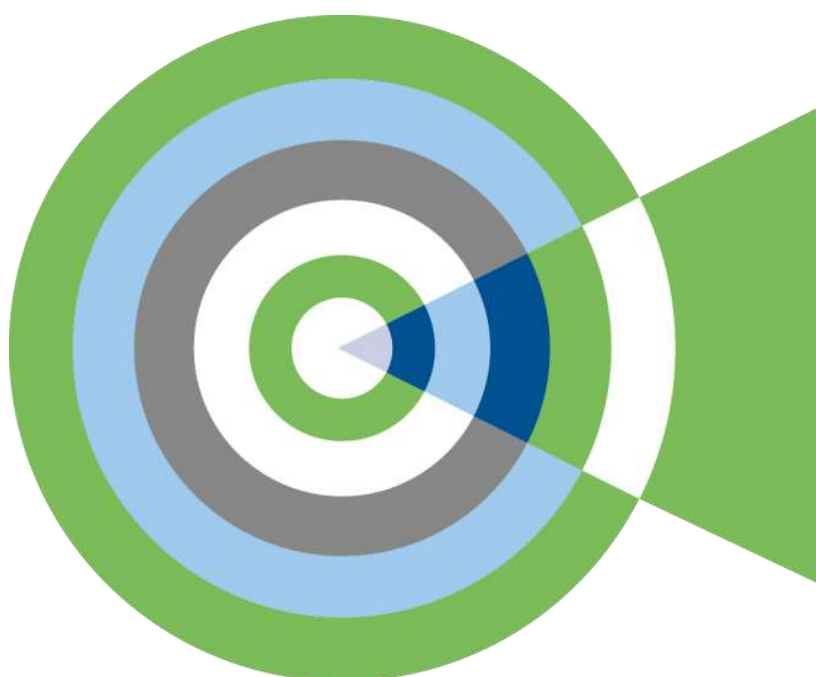


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# 1 – INTRODUCTION

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UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Belarus has been provided by the office of UHY representatives:

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Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at January 2017.

We look forward to helping you do business in Belarus.

## 2 – BUSINESS ENVIRONMENT

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### BACKGROUND

The Republic of Belarus is situated in the centre of Europe at the intersection of trade routes from west to east and from north to south. The country is crossed by the shortest transport communications linking the CIS countries with Western Europe.

### GEOGRAPHY

Belarus is situated in the eastern part of Europe and has common borders with Russia, Ukraine, Poland, Lithuania and Latvia. Belarus is generally a flat country; its level terrain is broken up by the Belarusian Range, a swathe of elevated territory, composed of individual highlands, that runs diagonally through the country from west-southwest to east-northeast.

The area of Belarus is 207.6 thousand square kilometres. It extends 560 kilometres (350 miles) from North to South and 650 kilometres (460 miles) from West to East). Belarus has no access to the sea.

Belarus is characterized by a temperate continental climate, which is formed under the influence of the Atlantic air masses. The hottest month of the year is July, the coldest one is January.

The city of Minsk is the capital of the Republic of Belarus. It is the largest transportation hub, political, economic, scientific and cultural centre of the country. Minsk is located not far from the geographical centre of the country and stands at the river Svisloch. The area is 348,84 km<sup>2</sup>, the number of population is about 2 million people.

### NATURAL RESOURCES

Potash salts, wood, peat, granite, dolomite, limestone, clay, sand, minor oil and natural gas deposits.

### ADMINISTRATIVE AND TERRITORIAL STRUCTURE

The Republic of Belarus consists of 6 Regions - Brest, Vitebsk, Gomel, Grodno, Mogilev and Minsk comprising 118 administrative Districts.

Minsk has a special status of an independent administrative and territorial unit.

### STATE AND GOVERNMENT

On 8 December 1991 the dissolution of the Soviet Union was officially announced at a meeting of the heads of state of Russia, Ukraine and Belarus in Viskuli (Brest Oblast) and the decision to create the Commonwealth of Independent States (CIS) was taken.

Minsk became the administrative centre of the CIS, and the Republic of Belarus became an independent sovereign State. In 1994 Belarus' new Constitution was adopted and the first presidential election was held.

The Republic of Belarus is a unitary state. The political type is a presidential republic. Legislative powers to issue decrees and edicts having the force of law are delegated to the President of the Republic of Belarus.

Parliament - the National Assembly of the Republic of Belarus - is composed of two houses — the House of Representatives and the Council of the Republic. The House of Representatives consists of 110 deputies elected on the basis of universal, free, equal, and direct elections by secret ballot. The Council of the Republic comprises 64 members. Eight members of the Council of the Republic are appointed by the President of the Republic of Belarus. Other members are elected by secret ballot in parts of eight members of the Council of the Republic from each region and the city of Minsk. Term of powers of the National Assembly — 4 years.

According to the Constitution the state power is exercised on the basis of its division into the legislative, executive and judicial branches.

#### POPULATION

The population of the Republic of Belarus is about 9,5 million people. Belarus is a multinational country (Belarusians 83,73 %, Russians — 8,26 %, Poles — 3,10 %, Ukrainians — 1,67 %, Jews — 0,14 %). Over 70% of the population are urban residents.

#### LANGUAGE

The state languages are Belarusian and Russian.

The majority of the population speaks Russian. English is also used in business.

#### NATIONAL CURRENCY

Belarusian ruble.

From 1 January 2011 till 31 December 2014 the Belarusian economy was considered to be hyperinflationary.

Inflation rate for the year 2014 was 16.2%

Inflation rate for the year 2015 was 12.0%

Inflation rate for the year 2016 was 10.6%

On July1,2016 the Belarusian ruble was redenominated in the ratio 10000 to 1.

#### THE ECONOMY

Belarus adheres to the socially-oriented model of the market economy. Belarusian economy is characterized by state ownership domination in production, power engineering, transport, extractive industry, construction, agriculture and banking fields, and small share of private sector.

The major branches of the Belarus economy include mechanical engineering, power engineering, agriculture, chemical industry, wood industry, construction, production of construction materials and extractive industry.

The main export items are oil products, potash fertilizer, engineering products, chemical and food industry production.

## FOREIGN TRADE

The economic structure, geographic location and historical development of the Republic of Belarus have determined the openness of the country's economy and its focus on foreign markets.

Belarus trades with 195 countries across the globe.

As of 2015, Russia accounted for 48.4% of Belarus' trade turnover, Ukraine – for 6.1%, Germany – for 4.3%, the United Kingdom – for 5.5%, China – for 5.6%, Poland – for 3.3%, the Netherlands – for 2.4%, Italy – for 1.3%, Lithuania – for 2.2%, Latvia – for 1.2%.

According to the data of the National Statistical Committee, Belarus' GDP went down by 2.6% in 2016 as against 2015. Belarus' GDP has declined for two years in succession. In 2015, the GDP fell by 3.9%.

## 3 – FOREIGN INVESTMENT

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In 2015 foreign investors invested in Belarus' real economy \$11,3 billion. As compared to 2014 the amount of foreign investments attracted to the economy has decreased by USD 3,7 billion or 24,8%.

The primary investors were business entities from Russia (43,2% of total investment), the United Kingdom (20,6%), the Netherlands (10,8%), Cyprus (7,1%), Austria (3,1%), China (3,0%).

### WHAT CAN BELARUS OFFER TO FOREIGN INVESTORS?

#### STRATEGICALLY ADVANTAGEOUS LOCATION

Placing a business in the territory of Belarus enables companies to efficiently serve the most high-capacity and quick-growing target markets: EU countries (505 million consumers), Russia, Ukraine, Kazakhstan and other CIS countries (282 million consumers).

The advantageous economic and geographical location of Belarus, developed transportation and logistics and manufacturing system of the country is accompanied by its membership in integration associations. In the first place, the Eurasian Economic Union of Belarus, Russia, Armenia, Kazakhstan and Kyrgyzstan (EEU).

All of these factors provide unique opportunities for companies interested in establishing and dynamically developing business in the Eurasian region.

#### DIRECT ACCESS TO THE MARKET OF EEU COUNTRIES (BELARUS, RUSSIA, KAZAKHSTAN, ARMENIA, KYRGYZSTAN)

Today companies investing in Belarus automatically enter the market of EEU countries.

The EEU is:

- Free movement of goods, services, capital, workforce;
- A common customs territory of Belarus, Russia, Kazakhstan, Kyrgyzstan with a single customs tariff;
- Equal business conditions (including the costs of the principal energy resources);
- Single rules of technical regulation, single sanitary, veterinary, and phytosanitary norms;
- Exemption of process equipment, raw materials imported to implement investment projects from import customs duties.

#### COMPETITIVE INVESTMENT AND TAXATION CONDITIONS

In Belarus there are a number of preferential regimes which could be of use for foreign companies, including from the point of view of their taxation planning and optimisation.

They include special beneficial business conditions in the case of organising business within six free economic areas (0% profit tax for 10 years), High-Tech Park (0% profit tax; 0% VAT), and the Belarusian-Chinese Industrial Park (0% profit tax for 10 years). Foreign companies can also derive additional profit by the maximum decrease of investment expenses and taxation burden while placing their businesses in the territory of small and medium towns of Belarus (0% profit tax for 7 years).

## DEVELOPED TRANSPORTATION AND LOGISTICS INFRASTRUCTURE

Due to its geo-economic location, Belarus is a transportation and logistics hub of Eurasia.

The transportation infrastructure of Belarus is represented by a broad network of motorways, railways, airlines. The thoroughfares crossing the country are the most important component of the European transportation system. Thus, Belarus is crossed by 2 cross-European transportation corridors, according to the international classification No. II (West-East – Berlin-Warsaw-Minsk-Moscow) and No. IX (North-South – Russian-Finnish border-Vyborg-St. Petersburg-Vitebsk-Gomel-Ukraine-Moldova-Bulgaria-Greece) with branch IXB – Gomel-Minsk-Vilnius-Klaipeda-Kaliningrad.

Annually over 100 million tonnes of European cargo cross Belarus's territory, 90% of which cargo is between Russia and the EU. At the same time, the transit potential of Belarus has not been exhausted – the Belarusian transportation corridors are used for 25-40% maximum of their real traffic capacity.

Thus, Belarus is the optimal link between the CIS countries (Russia in the first place) and the EU countries, which could be advantageously used by foreign countries by locating their manufacturing, logistics, and sale units in the country's territory.

## HIGHLY QUALIFIED WORKFORCE

Belarus is the country of one of the most educated, highly qualified, and industrious peoples. Over 90% of the population has higher, secondary or basic education. A well-developed system of professional training as well as a high level of the industry and services development enable the Belarusian workforce work successfully in companies of any industries, be it sewing, agriculture, biotechnologies or software development.

## INCENTIVES

In Belarus there are a number of preferential regimes which could be of use for foreign companies, including from the point of view of their taxation planning and optimization.

### 1. HIGH-TECH PARK (HTP)

High-Tech is the name of a special tax and legal regime, which aims to create favourable conditions for development software, information and communication technologies in the Republic of Belarus and to enhance national competitiveness.

Unlike many parks in Europe or Asia, Belarus HTP is a virtual hi-tech park. It means that the legal conditions of Belarus Hi-Tech Park are valid within the whole territory of Belarus. This principle enables the resident companies to use educational, scientific, professional and infrastructural potential of the whole country.

The resident companies of Belarus Hi-Tech Park are exempted from:

- profit tax and VAT on works, services) produced in the territory of the Republic of Belarus;
- customs duties and VAT on technical equipment imported for realization of investment projects;
- obligation of compulsory sales of foreign currency;



- land tax on land plots within the HTP throughout the period of construction but not exceeding three years;
- real estate tax (except for leased real estate).

Furthermore, a reduced tax rate of personal income (only 9%) is applied to employees in the HTP. Moreover, income received by a foreign entity from a High Technology Park resident is subject to withholding tax at a rate not exceeding 5%.

## 2. INDUSTRIAL PARK

Industrial Park is a special economic area which has a special legal status of granting tax privileges which was created in order to attract national and foreign investments for the development and organization of high-tech and competitive production in the sphere of electronics, fine chemistry, biotechnology, engineering, industry and new materials.

### TAX BENEFITS

Park residents are exempt from all corporation taxes during the first 10 years since the registration day. Tax rates are reduced by 50% during the subsequent 10 years. They are:

- profit tax;
- real estate tax, concerning buildings and constructions on the Park territory;
- land tax, concerning private land parcels on the Park territory.

Individual income tax rate (for employees) is 9%.

Residents of the park and their employees are exempt from compulsory insurance contributions from wage and salaries fund.

Full scale deduction of the VAT paid for purchase of commodities (works, services, rights) for projecting, constructing and equipping buildings and facilities of the park.

Exemption from dividend income tax for 5 years since the first year of profit reporting.

Royalty income tax rate as remuneration for license, patent, useful model, know how, process, is 5 %.

### CUSTOMS PREFERENCES

Park residents are exempt from customs duties and VAT on goods imported to the territory of the Republic of Belarus for the purpose of investment projects implementation.

Duty-free zone regime – import of commodities without payment of customs duties in case of further processing and export outside the Customs Union.

Policy in respect of foreign labour.

Exemption from fees for extension of permit to engage foreign labour, special work permits, residence permits.

### ONE STOP SERVICE

On the Park territory administrative management is carried out by the Administration functioning according to “one stop service” principle which provides comprehensive and comfortable service for Park residents.

The Administration fulfils the management function on the Park territory, registers legal entities on the Park territory as well as provides the whole package of administrative procedures.

#### ADDITIONAL GUARANTEES

Investors will be guaranteed a free transfer of the profits, obtained on the territory of the Republic of Belarus as a result of investment activities in the Park, outside the country.

#### GEOGRAPHICAL LOCATION

The Industrial Park is located only 25 kilometres to the east of Minsk, the capital city of Belarus (1,9 mln people) in close vicinity to Minsk National Airport, railways; it is on the crossing of the internal highway M1 which extends to Moscow on the north (the distance of 700 km) and to Berlin on the south (the distance of 1100 km). The distance to the closest seaport in Klaipeda (the Baltic Sea) is 500 km.

#### OTHERS

Grant of privileges, concerning payment of state dues for various administrative procedures.

Possibility to design and construct according to the technical regulations of foreign states.

Land plots on the park territory are either granted to investors for use (rent) for up to 99 years or can be purchased.

Investor gets ready transport and engineering infrastructure.

Upon establishing new taxes and fees in Belarus, residents of the park are not obliged to pay them.

### 3. FREE ECONOMIC ZONES (FEZ)

The Republic of Belarus has created six free economic zones, providing residents with significant benefits for the organization of its own production.

Businesses wanting to register with a FEZ must make a minimum investment of €500 000, but receive the following benefits:

- Tax free profits on all goods and services for ten years, then a 50% discount;
- No taxes on real estate owned or leased in the FEZ for three years;
- No land tax on the FEZ territory before 31 December 2021.

### 4. SMALL AND MEDIUM-SIZED TOWNS.

In total 184 urban settlements in Belarus are categorized as small and medium-sized towns. Commercial organizations which are registered and located in medium and small towns, rural areas and carrying out activities on the production of goods (works, services) on their territory are exempted within seven calendar years since the date of state registration from:

- profit tax on sale of goods (works, services) of own production and Individual income tax;

- state fee payments for granting a special permit, its correction and (or) extension;
- payment of other taxes and duties (excluding value added tax, excise duties, stamp and offshore duties, state fees, patent fees, customs duties and charges, land tax, environmental tax and a number of other taxes);
- mandatory sale of foreign currency from the sale of goods (works, services) of own production, including the lease of property, received from transactions with non-resident legal entities and non-resident natural persons.

## 5. INVESTMENT AGREEMENTS

Investment activity can be carried out by signing an investment agreement with the Republic of Belarus.

The main activities of the companies, signed investment agreements are: trade, construction, hotels and restaurants, food production, recreation and entertainment, telecommunications, chemicals, machinery and equipment manufacturing, agriculture.

Conclusion of an investment agreement gives an investor the opportunity to receive additional legal guarantees and preferential conditions for the realization of an investment project including:

- construction of the objects provided by the investment project, in parallel with the development, expert examination and approval of the subsequent stages of the construction;
- simplification of obtaining land, which includes leasing of a land plot without holding of an auction;
- exemption from payment of import duties and VAT on importation of equipment and spare parts for the realization of the investment project;
- exemption from the compensation for losses of agricultural and forestry production, caused by the seizure of the land plot;
- exemption from the payment of the state duty for the issuance of permits to attract the foreign labour force into the Republic of Belarus;

Moreover Belarusian legislation provides additional individual benefits and preferences, taking into account the specifics of the project.

## LEGAL FRAMEWORK

### INVESTMENT PROTECTION

In the Republic of Belarus, the activities of investors are regulated by the norms of national and international legislation.

The rights of investors are guaranteed by Constitution of the Republic of Belarus No. 2875-XII as of March 15, 1994 (with the amendments and additions adopted at the national referenda on November 24, 1996 and November 17, 2004), Law on Investment of the Republic of Belarus No. 53-3 as of July 12, 2013 (hereinafter referred to as the “Law on Investment”), other legislative acts and international treaties of the Republic of Belarus.

At the level of the national legislation the issues regarding investment in the Republic of Belarus are regulated by the Law on Investment, which establishes the legal framework and the basic principles of investing in the Republic of Belarus, and the provisions of which are aimed at attraction of investment in the Belarusian economy, warranty of rights and legitimate interests of investors, as well as their equal protection.

In accordance with the legislation of the Republic of Belarus, investors are entitled to realize their property and non-property rights. Besides, intellectual property rights belong to investors.

Foreign investors are guaranteed free transfer from the Republic of Belarus of compensation, profit (income) and other legally obtained funds connected with investment in the Republic of Belarus, as well as payments made for the benefit of foreign investors and connected with the investment after tax payment set by the legislation of the Republic of Belarus, dues (fees) and other obligatory payments to the republican and local budgets, state non-budgetary funds.

The transfer of foreign investors' profits may be limited in the event of a court decision, for example, if an organization established by investors is a debtor, which is fixed in a court decision entered into legal force, and the accounts of the organization are seized.

All investors have a guarantee of protection of their property from nationalization and requisition. According to Article 12 of the Law on Investment, the property which is investment or formed as a result of investment may not be nationalized without indemnity or requisitioned; nationalization is possible only for reasons of social necessity and is subject to the timely and full compensation for the value of the nationalized property and other losses caused by nationalization; requisition (temporary withdrawal) is possible only in cases of natural disasters, accidents, epidemics, epizootic and other circumstances of extraordinary character, in the public interest by the decision of the state bodies in the manner and on the terms stipulated by the law, with the compensation cost of requisitioned property paid to the investor.

Also, investors are entitled to judicial protection. Article 13 of the Law on Investment provides for the right of investors to apply to courts for protection of their violated rights, including international arbitration bodies and foreign investors can apply to the International Centre for Settlement of Investment Disputes (ICSID).

Currently, more than 50 bilateral agreements on protection and promotion of investment have been signed and are in force, which cover as well the free transfer of profit, compensation for the market value of investments in case of their loss as a result of "indirect nationalization", the guaranties of consideration of the dispute arising from investment activity of an investor in international arbitration bodies or courts of foreign states; the guaranties of property rights and expropriation only with the procedure and on the conditions stipulated by the law or court order.

The Republic of Belarus is a party to a number of multilateral treaties aimed at protecting the rights of foreign investors:

Seoul Convention for the Establishment of the Multilateral Investment Guarantee Agency (MIGA);

In 2012, the Republic of Belarus signed and ratified all the necessary documents, thus completed all the necessary internal procedures to ensure full membership in MIGA.

Convention on the Settlement of Investment Disputes between States and Nationals of Other States.

### THE LAW ON INVESTMENT

Law on Investment of the Republic of Belarus No. 53-3 came into force on January 24, 2014. It provides for improvement of the basic investment legislation based on the use of international experience in this field. The law recognizes the provisions of the Investment Code of the Republic of Belarus which deal directly with investment activities as invalid.

The main objectives of the Law mentioned above are providing simplicity and transparency of the norms and notions fixed in it, and providing the basic guaranties of investor protection.

It defines the basic notions: investment, investor, and also establishes ways of investment implementation and additional rights of investors.

1. The Law includes the provisions which are in conformity with the international practices of investment:

- methods of judicial protection, guaranties and rights of investors;
- does not regulate public funding and provision of the state support for investment projects. It also excludes direct state involvement in investment activity.

2. The Law establishes additional rights of investors:

- foreign investors are given a free transfer not only of profit (income, other earnings) from investment, after payment of the applicable taxes and compensation received during nationalization or requisition, but also a free transfer of the other obligatory payments established by the legislation (for example, salaries for employees);
- Also investors have the right to bring foreign individuals to the Republic of Belarus for labor activity under employment agreements, including those who do not have a permanent residence permit in the Republic of Belarus.

3. The Law clearly states exclusions from the scope of its regulation.

4. The Law lifts the following restrictions:

- on methods of investment (doesn't restrict the use of other methods of investment besides those specified in a project that are not prohibited by the legislation);
- on types of funding sources (they are not determined by a project, thus any sources can be used (loan, credit, own funds, etc.).
- on amounts of investment and legal forms of organizations established by investors, regulation of the establishment, formation of the statutory fund, liquidation and control over the activity of the commercial organization with foreign investments.

5. The law does not provide for the regulation of investment activity abroad, opening of accounts and accounting for investment abroad.

The law was developed in close cooperation with the experts from the International Finance Corporation, and as a result it received positive feedback.

## DECREE NO. 8

In order to improve the investment climate in Belarus Decree No. 8 has been issued. The decree provides for changes which have not been previously determined in investment legislation.

The new regulatory legal act sets out Decree of the President of the Republic of Belarus No. 10 as of August 6, 2009 “on creation of additional conditions for investment activity in the Republic of Belarus” in a new edition.

When developing a draft of the decree, the experience of investment projects implementation was analyzed in the scope of the investment agreements concluded in the Republic of Belarus, the proposals from relevant government authorities, investors, the business community were taken into account.

### **Under the provisions of Decree No. 8:**

Investment agreements will be concluded “only in respect of the priority sectors determined by the government.”

The procedure for granting of land plots for investment projects has been changed. In particular, without the auction they will be granted only “from the list of areas intended for subsequent provision to investors, organizations for construction of facilities stipulated by concluded investment agreements”.

The procedure for competitive selection of investors is provided in the presence of two or more investors applying for an investment project on the same plot of land. This will “ensure the best and most efficient use of land resources”.

The Decree sets a number of additional benefits and preferences for the investor. It includes the right for exemption from payment of a penalty (fine, interest) for violation of the conditions of an investment agreement, as well as provision of installment (deferred) payment of these payments, taking into account the degree of readiness of the object, provided by an investment agreement and the amount of investment.

There are a number of benefits and preferences for the contractor, developer of project documentation defined by the investor. In particular, they are exempt from paying the state fee for issuance (extension) of the permits to employ foreign workers, special permits for labor activity in the country. Foreign nationals and stateless persons involved in an investment project are exempt from paying the state fee for issuance (extension) of the permits for temporary residence in Belarus.

Particular attention in the Decree is paid to the compensation from the investor and (or) organization of benefits and (or) preferences in case of non-fulfillment or improper fulfillment of the terms of an investment agreement, the possibility of exemption, installment (deferred) payment of a penalty (fine, interest) for violation of an investment agreement by the investor and (or) organization.

## 4 – SETTING UP A BUSINESS

A foreign company can do its business in Belarus through the following:

- A separate legal entity in the territory of the Republic of Belarus
- A representative office of a foreign company

The most popular forms of companies with foreign investments in Belarus are the following:

- limited liability company (LLC);
- unitary company (Private Enterprise);
- closed joint-stock company (SA).

FORM OF COMPANY	NUMBER OF PARTICIPANTS (NATURAL AND LEGAL PERSONS)	MINIMAL CAPITAL REQUIREMENTS
Limited liability company	From 1 to 50	There are no minimum requirements
Unitary company	1	There are no minimum requirements
Closed joint-stock company	From 1 to 50	100 base units (which is 1,000 US dollars approximately)

### REPRESENTATIVE OFFICES

A foreign company can also carry out its activities in Belarus without creating a legal entity through opening its representative office. Generally a representative office is regarded as a separate subdivision of a foreign company representing its interest in Belarus, and not as a separate legal entity.

In most cases the primary objective of a representative office is to conduct, in the name and on behalf of a foreign company, activities of a preparatory and/or auxiliary nature, including:

- Belarusian commodity markets research
- Investment feasibility studies
- Setting up commercial organizations with foreign investments in Belarus.

### REGISTRATION OF COMPANIES IN BELARUS

Companies are subject to registration with the authorized government body which coordinates further registration of a legal entity with the tax authority, social security fund, statistical authority, Belarusian Republican Unitary Insurance Company "Belgosstrakh", etc.

As for a representative office, it shall (upon obtaining a permission from the Ministry of Foreign Affairs of the Republic of Belarus) by itself perform its registration with the tax authority, social security fund, statistical authority, Belarusian Republican Unitary Insurance Company "Belgosstrakh".

### LICENSING

A special permission (license) is required to conduct certain types of business activities. At present they amounted to 35, and the most important are: banking operations; gambling industry; production and wholesale of alcoholic and tobacco products; retail trade in alcoholic and tobacco products; wholesale and retail trade in petroleum and petroleum products; medical activities; transportation services and graphic printing activities.



## 5 – LABOUR

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The Labour Code of the Republic of Belarus (hereinafter – the Labour Code) provides the legal framework for labour relations in Belarus, establishes procedures for employment and dismissal, and contains provisions for working hours, vacation entitlement, business trips, payroll payments, etc. The Labour Code is aimed at protecting the employees' rights and interests.

Along with the labour Code the Decree of the President № 29 from 26 July 1999 applies in Belarus providing for the peculiarities of fixed-term labour contracts.

Operation of the Belarusian labour legislation extends not only to the Belarusian citizens, but also to foreign citizens engaged in labour activities in Belarus, if a labour contract is concluded in its territory.

### WORKING HOURS

Standard working time in the Republic of Belarus is 8 hours per day and 40 hours per week.

The Belarusian legislation provides for severe restrictions on assignment of overtime work.

In accordance with the Labour Code assignment of overtime work is allowed only with the consent of an employee, and with the raised rate of pay or additional days off.

Overtime work during a year is limited to 180 hours, provided that such overtime work does not exceed 10 hours in the working week. Length of the working day including overtime work shall not exceed 12 hours.

An employee can have a non-standard workday. In this case the duration of working time is not fixed, but an employee shall be granted additional leave up to seven days in a year.

In general, duration of the paid leave cannot be less of 24 calendar days per year.

According to the Belarusian labour legislation additional leave and other benefits shall without fail be granted to the employees engaged in labour activities in harmful and (or) hazardous conditions.

### RECRUITMENT

An employee is hired by executing a written labour contract and an internal document — official order on hiring which states the name of a new employee, his/her position and the date of hire. According to the applicable labour legislation a labour contract is concluded, as a rule, for an indefinite term.

However, conclusion of fixed-term labour contracts on the ground of the above mentioned Decree № 29 is more common practice, because it gives employers a number of substantial advantages. Among them one can mention, inter alia, a possibility to conclude a labour contract for one year (and up to five years) regardless of the branch, in which an employer carries out his activities, and work-related duties, as well as broader possibilities for terminating a labour contract on the initiative of an employer.

As a general rule employers can put their employees on a probation period with not longer than three months limit.

#### TERMINATION OF LABOUR CONTRACT

A labour contract can be terminated on the grounds stipulated by the labour Code. The labour Code provides for the following grounds of termination:

- Upon mutual agreement of the parties
- Expiry of a labour contract (in case of a fixed-term labour contract)
- On the initiative of an employee
- On the initiative of an employer
- Due to circumstances beyond one's reasonable control (force majeure) and some other grounds

#### EMPLOYMENT UNDER CIVIL LAW CONTRACT

It is also possible to conclude a civil law contract with an employee instead of a labour contract for performing works or rendering services. In this case a civil law contract, as well as legal relationship thereunder, is governed not by the labour, but the Civil Code and the Edict of the President № 314 from 6 July 2005.

A civil law contract shall be concluded in writing and comprise certain obligatory conditions.

#### SOCIAL SECURITY

Social security fund finances payment of sickness benefits. Such benefits amount to 80% of the average salary for working days within the first 12 calendar days of the sick period and 100% for the following sick days.

The existing pension system provides for calculation of the current employer's contributions as percent of the current total payments to employees. Upon retirement of an employee all pension payments are made by the state.

## 6 – TAXATION

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National taxes, charges/duties and local taxes and charges are imposed in Belarus.

### NATIONAL TAXES:

- value added tax;
- excise duties;
- corporate profit tax;
- tax on income of foreign enterprises which do not carry out activity in the Republic of Belarus through permanent establishment;
- income tax on individuals;
- corporate property tax;
- land tax;
- ecological tax;
- natural resources extraction tax;
- road fee (paid by owners of buses and lorries that are in transit through Belarus or enter the territory of Belarus);
- offshore fee;
- stamp fee;
- consular fee;
- state duty;
- patent duty;
- custom duties and fees;
- disposal fee.

### LOCAL TAXES:

- tax on dog owners;
- resort levy;
- tax on gatherers.

Payments to the State Social Security Fund and the Belarusian Republican Unitary Insurance Company "Belgosstrakh" are also paid in Belarus along with tax payments.

Besides, the Tax Code provides for special tax treatment for the payers of:

- taxes when applying simplified taxation system;
- single tax for individual entrepreneurs and other individuals;
- single tax for agricultural producers;
- gambling tax;
- tax on income from lotteries;
- tax on income from electronic interactive games;
- levy on craft activity;
- levy on farm eco-tourism;
- single tax on imputed income.

## TAX INSPECTION

The Ministry for Taxes and Levies of the Republic of Belarus is a state administrative body implementing state policy and performing regulation and administration in the sphere of taxation. Local tax authorities, being subordinate to the Ministry for Taxes and Levies, are entitled to carry out tax inspections.

Local tax authorities carry out scheduled and unscheduled inspections of legal entities. Frequency of scheduled tax inspections of the same payer/other person liable depends on the risk group the inspected person is assigned to:

- high-risk group — not more frequently than once a calendar year (if according to results of the scheduled inspection no infringements have been detected, the next inspection is scheduled not more frequently than once in two calendar years (including the year when the inspection was performed));
- average-risk group — not more frequently than once in three calendar years (if according to results of the inspection no infringements have been detected, the next inspection is scheduled not more frequently than once in five calendar years (including the year when the inspection was performed));
- low-risk group — as and when necessary, but not more frequently than once in five calendar years.

Criteria for assigning the inspected person to whichever risk group are established by the legislation.

With that, notwithstanding the risk group to which the person is assigned, inspections are scheduled not more frequently than once in five years if the following conditions have been fulfilled:

- no infringements of the legislation have been detected by the previous inspection;
- no infringements of the legislation by the inspected person have been detected within the period after ending the previous scheduled inspection and till scheduling the next inspection.

Principle of good faith of the inspected person applies in the Republic of Belarus. In particular, in case of ambiguous or slovenly provisions of law decisions shall be taken in favour of the inspected person.

The legislation sets a moratorium on inspections within two years from the moment of setting up a business in Belarus.

Underlying taxes are profit tax, VAT, real estate tax, tax on income of foreign enterprises, and payroll taxes.

## CORPORATE PROFIT TAX

A corporate profit tax is a tax imposed on gross profit which is determined by addition the following:

- profit from realization of goods/works/services and property rights;
- non-operating revenues reduced by the amount of expenditures taken into account during taxation on these operation.

Non-operating revenues, in particular, include:

- income from shareholdings in other companies, including dividends received from the sources outside Belarus;

- income from sale of shares, as well as profit received by a company's member in case of its liquidation;
- foreign exchange gain;
- fines, penalties and forfeitures for violation of contractual terms and conditions, payables and settled receivables, which were previously included into extraordinary expenses, with expired periods of limitation;
- interest on loans and deposits;
- property/works/services or property rights received without consideration;
- other revenues.

#### EXPENSES NOT TAKEN INTO ACCOUNT FOR TAX PURPOSES

Some expenses incurred by a company in the course of business are taken into account when defining the tax base for corporate profit tax only to the extent established by legislation. Such expenses include travel expenses and expenses on fuel and energy resources.

Most expenses are taken into account during taxation in full.

There are also special conditions to charge some types of expenses/costs to the expenses/costs that are taken into account during taxation in case of capital deficiency and payment for the listed services rendered by the related parties.

Such expenses can be charged to costs in an amount not exceeding the limit value determined in accordance with the legislation.

#### TAX RATE

The corporate profit tax is paid at 18% rate. 12% rate applies to dividends.

#### TAX LOSS CARRY-FORWARD

Companies may apply for tax loss carry-forward, beginning from the losses incurred in 2011. Tax loss carry-forward can be made during 10 years after the fiscal period when losses were incurred in order of their incurring.

#### VALUE ADDED TAX (VAT)

Realization of goods/works, services, property rights in the territory of the Republic of Belarus, and their import to the Republic of Belarus are subject to value added tax (VAT).

#### TAX RATES

- 0% — on exported goods, and goods exported to the member-states of the Customs Union; goods of own production to a duty-free shop's owner for the purpose of their subsequent sale in duty free shops; activities (services) connected with accompanying, loading, transfer and other similar activities directly connected with the selling of exported goods; exported transport services; exported work (services) to produce goods from take-back feedstock, repair works (modernization, re-equipment) of aircraft and their engines, units of trains, performed for foreign organizations or individuals, etc.;

- 10% — on sale of goods of Belarusian origin coming from crop production (with the exception of floriculture, growth of ornamental plants), wild berries, nuts and other fruits, mushrooms, other wild-growing production, livestock breeding (with the exception of fur farming), fishery and bee-farming, and on import and (or) sale in the territory of the Republic of Belarus of foodstuffs and goods for children that are included in the list approved by the President of the Republic of Belarus;
- 20% — on goods, works and services not specified above.

The legislation also provides for tax rates of 9,09% and 16,67% on sales of goods at administered retail prices.

#### THE SUM OF VAT AND TAX DEDUCTIONS

The sum of VAT to be paid to the state budget is defined as the difference between general sum of tax, calculated at the end of the fiscal period and the sums of tax deductions. The calculated sum of VAT is determined on an accrual basis since the beginning of the tax period at the end of each fiscal period. As a rule, VAT deductions are made on an accrual basis within limits of sums of VAT, calculated after realization of the goods (works, services), proprietary interests.

Electronic invoice (e-invoice) is a mandatory electronic document for all VAT payers, which shows VAT settlements between a seller and a buyer upon a transaction. E-invoice is also designed for Vat credit and control over transaction accuracy.

#### VAT ON IMPORTED GOODS

When importing goods into Belarus VAT is collected by customs authority. When importing goods from the member-states of the Customs Union (Russian Federation, Armenia, Kazakhstan and Kyrgyzstan) VAT is collected by tax authorities of the Republic of Belarus.

VAT rate depends on the type of imported goods and can make 20% or 10%.

#### CORPORATE PROPERTY TAX

The objects of taxation subject to corporate property tax for organizations are permanent structures (buildings and structures) and their parts including buildings and structures and transfer mechanisms the above norm unaccomplished construction as well as parking places.

#### TAX RATE

Annual tax rate of corporate property tax for organizations is 1%, for individuals — 0,1%. The annual tax rate of 2% is established for the objects of the above norm unaccomplished construction.

Local authorities may increase/decrease the tax rate not more than two and a half times for certain categories of payers.

## **PROFIT TAX OF FOREIGN ORGANIZATIONS NOT OPERATING IN BELARUS THROUGH PERMANENT REPRESENTATIVE OFFICES (WITHHOLDING TAX)**

### **TAX RATES**

The object of taxation is the following income received by a taxpayer from sources in Belarus:

- dividends — 12%;
- income from disposal of shares in the authorized fund (stocks) of organizations in Belarus, or their parts — 12%;
- royalty (including rental payments) — 15%;
- licenses — 15%;
- interest income from debt-claims — 10%;
- conveyance fee, freight (including demurrage and other payments arising from the transportation) in connection with international carriage (except for the payment of tickets for passengers in international traffic, the carriage fees and freight in connection with international carriage of goods by sea) — 6%;
- other income — 15%.

### **AVOIDANCE OF DOUBLE TAXATION**

In order to avoid double taxation the Republic of Belarus signed 70 bilateral treaties with other states. These treaties provide for possibility for reduction of tax rates or total tax exemption.

In the absence of current agreements for avoiding double taxation the applicable tax legislation allows to take profit tax and real estate tax, paid to the budget of a foreign state, in payment of the respective taxes in Belarus.

### **SOCIAL SECURITY**

The objects for the calculation of obligatory insurance fees to the National Social Security Fund are all monetary and/or natural payments, calculated in favour of working citizens on the basis of all grounds, irrespectively of the sources of financing, including remuneration under civil law contracts except for those provided for by a list of payments, which are not subject to insurance fees.

Payments cannot exceed the amount of five average wages in the Republic of Belarus for the month, preceding the month for which obligatory insurance fees are paid.

Some payments not included into obligatory insurance fees are determined by the respective acts of legislation. They cover some kinds of material assistance, compensations, one-time payments.

### **THE AMOUNTS OF OBLIGATORY INSURANCE FEES**

The following obligatory insurance fees are made by payers by a single payment:

- Obligatory insurance payments covering retirement, disability, loss of breadwinner (pension insurance) — 29%, where 28% is paid by an employer and 1% by an employee, however, in this case the tax amount is withheld and paid directly by an employer.
- The amount of obligatory fees of insurance in case of temporary incapacity for work, pregnancy, childbirth, etc. — 6%.

#### ACCIDENT INSURANCE

Insurance fees of obligatory insurance against occupational diseases and accidents at production facilities are calculated on the basis of payments that are subject to the obligatory insurance for natural persons under labor and civil-law contracts.

The amount of insurance fees is determined by the insuring party according to insurance tariffs annually approved by the President of the Republic of Belarus.

Insurance fees are paid to Belarusian Republican Unitary Insurance Company "Belgosstrakh".

#### INDIVIDUAL INCOME TAX

Belarusian and foreign citizens who are tax residents in Belarus are liable for tax on income earned in monetary or other form during a calendar year.

Individuals who are not qualified as tax residents in Belarus (if they physically present in Belarus for a period less than 183 days in a calendar year) pay income tax only on income derived in the Republic of Belarus.

Organizations that hire employees on the basis of labour contract or civil-law contract fulfil obligations of tax agents and withhold the taxes from incomes of citizens and transfer them to the state budget.

Taxable income means any income, earned by taxpayers from the sources in Belarus as well as abroad, reduced by the applicable tax deductions (standard, social, property-related and professional).

#### THE INCOME TAX RATES

The Republic of Belarus has a flat rate of 13% for its tax residents and for the Belarusian income of non-residents.

The income tax rate is set at 16% in respect of the income, received by individual entrepreneurs (notaries, solicitors) from their business (notary, sole advocacy) activities.



## 7 – ACCOUNTING & REPORTING

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### ACCOUNTING

According to the general provisions of the accounting legislation, including the Law on accounting and reporting, the main task of accounting is presentation of complete and reliable information about a company's activities, its assets and liabilities.

The Law on accounting and reporting apply to legal entities of the Republic of Belarus, branches, representative offices and other separate subdivisions which have a separate balance, representative offices of foreign and international organizations, economic groups, holding companies, simple partnerships (parties to joint activities agreement).

Representative offices of foreign organizations located in Belarus shall shape its accounting policies on the ground of the accounting and reporting principles provided for by the Law on accounting and reporting.

Financial statements are prepared for a financial year from 1 January till 31 December inclusively.

Financial statements of an organization include:

- balance sheet;
- profit and loss statement;
- capital statement;
- cash flow statement;
- notes to the financial statements provided for by the Belarusian legislation.

In accordance with the accountancy requirements and depending on the accounting policies of a taxpayer the revenue in accounts and tax returns is accounted for on the accruals basis.

Format for presenting financial statements is prescribed by the Ministry of Finance. The financial statements are prepared in Belarusian and (or) Russian languages. Currency of the financial statements is official currency of the Republic of Belarus.

Public interest entities (open stock companies which are incorporators of unitary enterprises and (or) parent companies, banks and nonbank credit and financial organizations, insurance organizations except for banks) are obliged to prepare the annual consolidated statements in accordance with IFRS for 2016 and in subsequent years in official currency of the Republic of Belarus.

### DIFFERENCES BETWEEN IFRS AND ACCOUNTING PRINCIPLES APPLIED IN BELARUS

Most requirements of the Belarusian legislation that apply to commercial organizations come from the provisions of the Civil Code, the Law on accounting and reporting and standard chart of accounts used in organizations. Moreover, these requirements are defined taking into account the provisions of legislative and regulatory legal acts for accounting adopted by the Ministry of Finance. Formally certain requirements are defined with regard to IFRS, however, in practice their interpretation and application can differ essentially.

### LIST OF THE MAIN DIFFERENCES

- Difference in determination of reporting currency and functional currency (statutory financial statements shall be prepared only in the official currency of the Republic of Belarus).
- Statutory availability of source documentation, prepared in the prescribed format, for accounting and tax purposes.
- Effects of hyperinflation are not reflected in the Belarusian accounting system.
- Priority of individual, and not consolidated accounts.
- Differences in procedure for fixed assets accounting (capitalization, revaluation).
- To present financial statements in accordance with IFRS the transformation or parallel accounting under different standards is required.

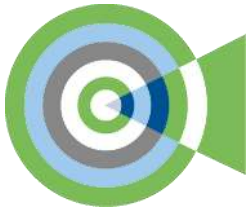
### AUDIT REQUIREMENTS

Statutory audit of annual financial statements is conducted annually for:

- joint-stock companies which according to the laws of the Republic of Belarus are required to publish their annual reports;
- National Bank of the Republic of Belarus;
- banks, banking groups, banking holdings;
- stock exchange;
- insurance companies, insurance brokers;
- residents of Hi-Tech park;
- organizations that guarantee repayment of individual deposits;
- professional participants of the securities market;
- other organizations, which receipts from marketing goods and works/services for the previous reporting year exceeded equivalent of 5 000 000 Euro.

## 8 – UHY REPRESENTATION IN BELARUS

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