Investors' Expansion: Tax Incentives in Russia

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At the beginning of 2015, new tax incentives for the Far-East regions were set up at a federal level and the discussion continues regarding the provision of more freedom to Russian regions in implementing regional incentives. The so-called "deoffshorisation" process in Russia, including the implementation of a significant piece of new legislation in 2015, is gradually making maximization of tax efficiency through international tax structuring more complicated. Therefore, the tax incentives directly stipulated by legislation as a tool to decrease the tax burden are becoming more user-friendly and popular at both the federal and regional levels of Russian authorities.

TAX INCENTIVES FOR INVESTORS IN THE REGIONS

The availability of regional tax incentives which are provided by the majority of Russia's regions for companies planning to invest in fixed assets, is not the least important factor in influencing the choice of a location for production facilities.

Among the most significant regional tax concessions are the following:

- property tax reduction or exemption for certain types of property;
- profits tax rate reduced to 15.5% (from the standard rate of 20%) by a reduction in the regional component.

Property tax incentives are particularly appealing to investors, as property tax is payable irrespective of profits generated by a company, and therefore constitutes immediate cost for business. Moreover, if a Russian legal entity acquires fixed assets through affiliated companies, property tax increases, hence, the effect from the application of the tax incentive may be higher.

Most regions have an approval process for claiming tax incentives which requires the investor to enter into the investment agreement with the regional authorities and prepare a package of documents, including a business plan that must be approved by the government. However, a few regions grant tax incentives without prior approval, on the basis of self-assessment by the taxpayer (for example, St. Petersburg, Leningrad region, Pskov and Tula).

Regional governments may place restrictions on the type of business activity undertaken by investors, and set a minimum level of capital investments. At the same time, in St. Petersburg, a profits tax incentive is available, which does not depend on the amount of investments or the type of industry, but is granted upon compliance with a certain number of employees and a minimum salary.

The duration of any tax incentive may be dependent on the amount invested and the project's pay-back period.

Generally speaking, while regional authorities have started competing to lure attractive investment projects and ease the requirements on the investors, many practical questions may arise in each region due to conflicting and controversial interpretations of tax legislation, as well as the different approaches taken by each region's tax authorities. It is not rare for regional requirements to contradict federal laws. This does not always become a problem for a company, and may open additional opportunities in the negotiation position.

Applying for regional tax incentives for the first time can be a time-consuming and administratively difficult process. At the same time, companies that have experience in different regions and a strong legal negotiation position, usually receive approval from the authorities, even if the investments are done in the course of routine fixed-asset modernization activities.

INCENTIVES FOR INVESTORS IN FAR EASTERN RUSSIA

The **Russian Far East Federal District** is today truly ahead of all other regions in Russia in terms of initiatives for investors. Apart from the generous benefits for manufacturers implementing **regional investment projects in Far Eastern Russia and Siberia that have recently been introduced** (lowering the profits tax rate from 20% to 0% for qualifying projects for the first five years and to 10% for the next five years), the federal law on **territories of advanced development (TAD)** came into force on 30 March 2015.

The law stipulates a wide range of benefits for investors in specially established territories within the Far East, which looks to be even more attractive than those of **special economic zones (SEZ)**. The residents of TADs are provided with the following tax incentives with minimal requirements for capital investments (the exact rates and additional eligibility criteria is expected to be adopted by the regions during 2015):

- Reduced profits tax rate: 0-5% for the first five years, 12-20% for the next five years depending on the region
- Exemption or reduced rates of property and land taxes
- Declarative procedure for VAT refunds
- Discount rates for mineral extraction tax for 10 years
- Reduced social insurance contributions rate (7.6% instead of 30%)

More opportunities for companies of different industries (as opposed to SEZs with strong limitations in eligible activities) should make the TADs more accessible to investors. It is expected that within the next three years, a minimum of 14 TADs will be developed in the Far East regions; starting from 2018 the TADs can be established in monotowns (towns whose economy is dominated by a single factory) of other regions of Russia with the most difficult financial and economic situations.

All in all, there is a wide range of tax incentives offered by both federal and regional governments if your business is planning investments into fixed assets. With new tax incentive tools appearing every year, legislative tracking can help you a lot in getting more tax benefits.